The Mediterranean Response to Globalization Before 1950

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12 Intervention during the Great Depression

Another look at Turkish experience

Şevket Pamuk

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 decline in 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 autarky and import-substituting industrialization.

During the 1980s Carlos Diaz Alejandro (1984) and Angus Maddison (1985) showed that, whatever the outcomes may be in the longer term, developing economies that shifted to protection and inward-looking policies generally fared better during the Great Depression than those that adhered to the earlier strategy based on primary exports. 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 programmes 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.[1] 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.

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. 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.

Most Latin American countries adopted the new, inward-looking strategies, while the experience of developing countries in Asia was more heterogeneous. Around the Mediterranean, policy outcomes were also more diverse. In southern Europe, where the inflationary impact of World War I was still well remembered, governments tended to remain fiscally conservative while embracing protection 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 (Feinstein, Temin and Toniolo 1997: 175–7).

In Greece macroeconomic policy was more interventionist. In addition to providing early support for tobacco and wheat producers, the government was forced to move away from the gold standard and devalue the drachma in 1932, the first country in the Balkans to do so. It also defaulted on its external debt and adopted exchange controls the following year. With protection 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 (Mazower 1991: 115–270). Similarly, the Great Depression also led to a rise in state intervention and an expansion of the economic role of the state in Yugoslavia, Bulgaria and Romania (Lampe and Jackson 1982: 434–519; Barlas 1998: 14–28).

On the other hand, colonial administrations in Syria, Lebanon and Palestine did relatively little in response to the Depression. The same was true of the countries of the Maghrib – Morocco, Algeria and Tunisia. Writers on the British and French empires have identified a number of basic 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 payment flows. Typically, a colonial currency was managed by a currency board in London or Paris (Owen and Pamuk 1998: 51–3).

With the help of British pressure, large Egyptian landowners enjoyed decisive influence over the nominally independent government. They 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 protection for this and other branches of industry remained limited in relation to other, more interventionist countries, however (Owen and Pamuk 1998: 34–45).

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 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 in most other countries around the eastern Mediterranean, as I shall show.

The legacy of the 1930s profoundly influenced attitudes toward international trade in Turkey. Per capita 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 next section will link the published statistics and the existing estimates for the national income accounts of the Ottoman Empire to those of Turkey to construct, for the first time, reasonably uniform series for the period 1913–50. The rest of the paper will then examine the reasons for the relatively strong performance of Turkey's economy during the period 1929–39. Turkey belonged 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 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 on 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 included an increasingly restrictive foreign-exchange regime and bilateral trading arrangements that 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 frequently 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-quarters of the labour 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 that 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.

The growth record, 1913–50

The period from 1913 until 1945 was exceptionally difficult for Turkey's society and economy. In addition to the world depression, the country suffered through two world wars and a radical redrawing of the borders accompanying the process of transition from an empire to a nation state.

Until recently it was not possible to assess the impact of these events on the Turkish economy. Utilizing the official statistics, Tuncer Bulutay and his colleagues had constructed national income accounts for the period 1923–48. However, these series were not linked to the official production, tax-collection and foreign-trade series of the Ottoman period, or to the reasonably detailed estimates for national income prepared by Vedat Eldem for the years before World War I (Bulutay *et al.* 1974; Eldem 1994).

Isik Özel (1997) linked these two sets of evidence for the first time, producing comparable series for the area within the present-day borders of Turkey for the period 1907–39. Thanks to this work, it is now possible to assess the macroeconomic performance of the Turkish economy during the first half of the twentieth century, and for the purposes of the present paper, insert the 1930s into a long-term context (Özel 1997; see also Güran 1997).

The results are summarized in Figure 12.1 and Tables 12.1 and 12.2. They indicate that Turkey's GDP per capita in 1950 stood approximately 30 per

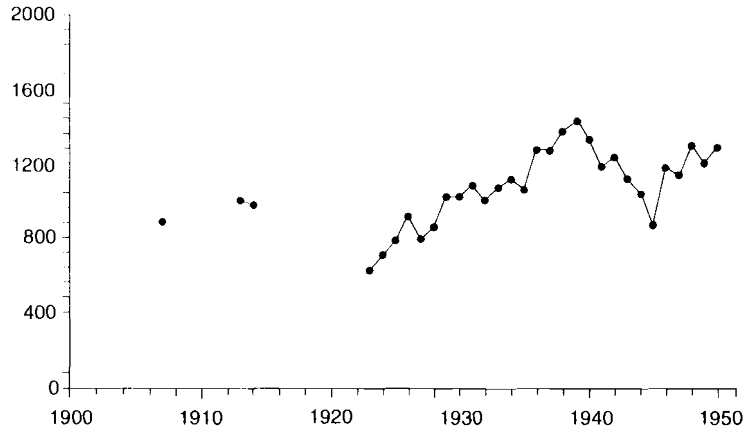

Figure 12.1 GDP per capita in Turkey, 1907–1950 (in 1990 PPP dollars).

Table 12.1 Turkey: basic economic indicators, 1923–1946

	1923	*1929*	*1939*	*1946*
Population in millions	13	14	17.5	19
Share of agriculture in the labour force	n/a	80	77	77
GNP per capita in 1990 PPP dollars	615	1 015	1 425	1 180
Share of agriculture in GNP (per cent)	40	52	39	46
Share of manufacturing in GNP (per cent)	12	9	17	13
Share of total industry including construction in GNP	16	14	22	18

cent higher than its level in 1913, an average annual rate of increase of 0.7 per cent. Not surprisingly, there were sharp fluctuations in between, in population, GDP, and GDP per capita. Periods of expansion (before 1914, 1923–9 and 1929–39) were disrupted by wars (1914–22 and 1939–45). For more than a decade beginning in 1912, Anatolia had been ravaged by a series of wars. Total casualties, military and civilian, of Muslims, Armenians and Greeks during this decade are estimated at close to 3 million. Moreover, in the largest peacetime agreement of population exchange between two governments, approximately 1.2 million Greeks left Anatolia, and in return, approximately half a million Muslims arrived from Greece and the Balkans

Table 12.2 Turkey: a periodization of economic growth 1923–1946 (average annual rates of growth in per cent)

	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
hlanufacturing output	3.3	7.2	5.2	-3.0
Total industrial output including construction	4.5	10.2	5.7	-2.6

Sources: Calculations based on Turkey, State Institute of Statistics (1994); Bulutay *et al.* (1974) and for the conversion to 1990 PPP dollars, Maddison (1995: 184–185). 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: Ch. 4).

after 1923 (Behar 1995; Shorter 1985; Eldem 1994; McCarthy 1983). As a result of these massive changes, the population of Turkey stood at 13 million at the end of 1924, a decrease of almost 25 per cent from a decade earlier. Accompanying these dramatic changes was the sharp decline in the levels of production. In agriculture where the evidence is more detailed, total production may have declined by more than 50 per cent from its 1914 levels.[3]

The former military officers, bureaucrats and intellectuals who assumed the positions of leadership in the new nation stale founded in 1923 strove, from the outset, to create a national economy. Industrialization and the creation of a Turkish bourgeoisie were viewed as the key ingredients of economic development (Tezel 1986: 389–97; Keyder 1987: 91–101). 'The economy recovered sharply during the 1920s. Sectoral growth rates summarized in Table 12.2 indicate that agricultural output almost doubled from 1923 to 1929. Comparisons of Ottoman and Turkish statistics suggest that per capita production levels within the boundaries of Turkey exceeded their pre-World M'ar I levels in 1929 (Özel 1997: Ch. 3).

The available series also indicate that the economy performed strongly during the decade of the Great Depression. From 1929 to 1939 GDP and GDP per capita are estimated to have increased at average annual rates of 5.2 and 3.0 per cent, respectively. Even though Turkey did not participate in World War II, it maintained a large army and the economy came under enormous pressure as imports were disrupted and the diversion of resources for the military placed enormous strains on both industry and agriculture. GDP fell by about 35 per cent from 1939 to 1945 (Boratav 1981: 63–72).

From a comparative perspective, the overall trend of 0.7 per cent annual

Table 12.3 Mediterranean economic growth in comparative perspective, 1913–50 (GDP in 1990 PPP dollars)

Country or Region	*GDP per capita*		*Average annual rate of change*
	1913	*1950*	*(per cent)*
France	3 450	5 220	1.1
Portugal	1 350	2 130	1.1
Yugoslavia	1 030	1 550	1.1
Italy	2 510	3 430	0.9
Turkey	995	1 300	0.7
Greece	1 620	1 950	0.5
Spain	2 260	2 400	0.2
Egypt	510	520	0.0
Latin America	1 520	2 610	1.5
Asia (excl. Japan)	700	640	–0.3

increase in GDP per capita for the period 1913–50 puts Turkey's economic performance in the middle of the spectrum spanned by tlie southern European and Mediterranean countries for which GDP series are available. According to the estimates prepared by Angus Maddison in 1990 Purchasing Power Parity dollars, GDP per capita remained unchanged in Egypt between 1913 and 1950, increased by 0.2 per cent per annum in Spain and by 0.5 per cent per annum in Greece. At the higher end of the spectrum, GDP per capita increased by 0.9 per cent per annum in Italy and by 1.1 per cent pel- annum in Portugal, Yugoslavia and France. GDP series are not available for the other eastern and southern Mediterranean countries. Between 1913 and 1950, GDP per capita increased by an average of 1.5 per cent pel- annurn in Latin American countries where the impact of the two world wars was limited. In contrast, the developing countries of Asia experienced a decline in per capita GDP of about 0.3 per cent per annum during the same period (Table 12.3).

The Great Depression

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 per cent from 1928–9 to 1932–3 and remained at those levels until the end of the decade. Prices of the leading export crops – tobacco, raisins, hazelnuts and

Table 12.4 Turkey's foreign trade, 1924–1946

	1924–5	*1928–9*	*1938–9*	*1945–6*
Exports (million dollars)	92.5	81.5	107.5	192.0
Imports (million dollars)	114.5	97.0	105.5	108.5
Exports/GNP (per cent)	12.8	11.4	6.9	5.2
Imports/GNP (per cent)	15.8	14.4	6.8	2.8
Trade balance/GNP (per cent)	–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).

cotton – also showed declines averaging around 50 per cent, 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 by more than 25 per cent and the domestic terms of trade shifted against agriculture by 31 per cent from 1928–9 to 1932–3 (Tables 12.4 and 12.5). 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.[4] 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 (Tekeli and Ilkin 1977: 75–90; Tezel 1986: 98–106).

In response, the government moved quickly towards protection 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 per cent in 1929 and to more than 60 per cent by the second half of the 1930s. Equally importantly, tariffs on imports of foodstuffs and manufactured consumer goods were raised substantially but were kept lower lor 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

Table 12.5 Turkey: agricultural production and prices, 1928–1946 (all indices, unless indicated otherwise)

	1929–30	*1938–39*	*1945–46*	
Labour 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 agricultural prices/non-agricultural prices	100	69	81	95
Cereal prices/non-agricultural prices	100	55	57	80
Prices of non-cereal crops/non-agricultural prices	100	90	104	109

Source: Calculations based on Bulutay *et al.* (1974).

some of the tariffs were raised further during the 1930s as import substitution spread to new sectors (Yücel 1996: 74–84 and 105–13). The immediate beneficiaries were the small and medium-scale manufacturing enterprises in many parts of the country consisting of textile mills, flour mills, glassworks, 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 per cent per annum during the period 1929–33.[5]

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 per cent 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 favourable 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 per cent in 1931–3 to an average of 40 per cent for 1937–9. Similarly, its share of Turkey's imports increased from 23 per cent in 1931–3 to 18 per cent in 1937–9 (Tezel 1986: 139–62; Tekeli and Ilkin 1982: 221–49).

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-à-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 per cent against both sterling and the dollar between 1931 and 1934 and the new parities were maintained until the end of the decade.[6]

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 per cent in 1928–9 to 6.9 per cent in 1938–9 (Table 12.4). 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 sought 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 favourable result, reducing the annual payments by more than half for the rest of the decade. During that period 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 (Tezel 1986: 165–89).

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 in 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 unfavourable 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 World War II. 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, cement, utilities and mining.[7]

Etatism involved the extension of state-sector activities and control to other parts of the urban economy as well. Railways which were nationalized 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 (Pamuk 1995: 96–102).

Etatism has undoubtedly had a long-lasting impact in Turkey. For better or worse, this experiment also proved to be inspirational for other state-led industrialization attempts in the Middle East after World War II.[8] 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 twenty. Official figures indicate that in 1938 total employment in manufacturing, utilities and mining remained below 600,000 or about 10 per cent of the labour force. State enterprises accounted for only 11 per cent of this amount, or about 1 per cent of total employment in the country. Approximately 75 per cent of employment in manufacturing continued to be provided by small-scale private enterprises (Tezel 1986: 233–7).

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 adversely affected by the contraction of foreign trade. This was, however, due more to the disintegration of international trade than to 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 per cent of GDP during 1927–9. Private investment accounted for about 9 per cent, and the rest came from the state sector, primarily in the form of railway construction. With the onset of the Depression, private investment dropped sharply to 5 per cent 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 per cent of GDP by the end of the decade (Tezel 1986: 362–88). These estimates suggest that the state sector made up for 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 fourth of all public investment, or slightly above 1 per cent 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.

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 were available (Bulutay *et al.* 1974). This method sharply overstated the extent of the 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 per cent to 5.2 per cent per annum (Zendisayek 1997: Ch. 4). 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 12.2 still point to a strong performance for the economy as a whole.

We thus have an apparent puzzle on 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 suggests that one important candidate is exchange-rate policy.[9] 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 per cent against sterling and the dollar between 1932 and 1934. Similarly, fiscal policy can hardly be characterized as expansionary during the 1930s. Government revenues and expenditures increased only modestly from about 13 to 15 per cent of GDP in the late 1920s to a new range of 17–19 per cent 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 (Tezel 1986: 368–88; Yücel 1996: 62-73). 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.[10] 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 Inönü, 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.[11]

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 the key causes of the output increases after 1929.[12] 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 per cent of GDP in 1928–9 to 8.7 per cent by 1932–3 and 6.8 per cent by 1938–9. Even more importantly, the composition of imports changed dramatically. The share of final goods declined from 51 per cent in 1929 to 21 per cent in 1940 while the share of intermediate goods rose from 26 per cent to 54 per cent and machinery and equipment from 9 per cent to 22 per cent during the same period. Severe import repression thus created very attractive conditions for 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 (Zendisayek 1997: 54–105; Yücel 1996: 89–130).

There is yet another explanation for the overall performance of both the urban and the national economy which has frequently been ignored by economists and economic historians in their often heated debates over etatism and its meaning.[13] For that we need to turn to agriculture, the largest

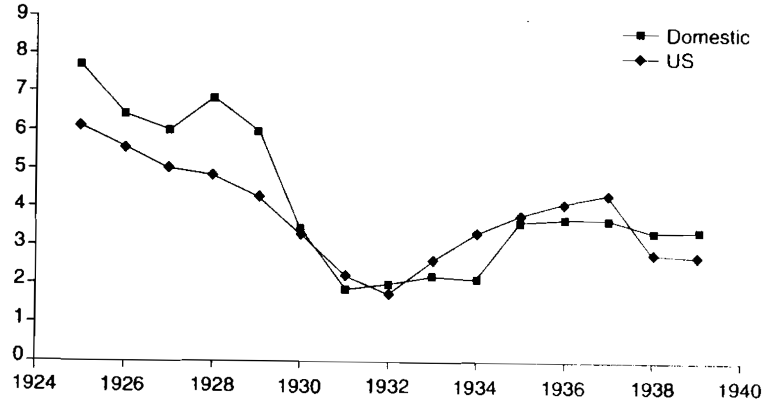

Figure 12.2 Domestic and international prices of wheat in US cents/kg.

Sources: Based on Bulutay *et al.* (1974) and U.S. Bureau of the Census (1974).

sector of the economy, employing more than three-quarters of the labour force during the 1930s and accounting for close to half of the GDP.

Agricultural expansion during the depression

The story of the agricultural sector during the interwar period has two parts: one concerning prices, the other concerning quantities. First, as 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 was in fact much greater than that of the producers of non-cereals (Table 12.5). 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.

One of the responses of the government was to initiate, after 1932, direct and indirect price-support programmes 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 per cent of the overall crop or about 15 per cent of the marketed wheat (Atasagun 1939; Bulutay *et al.* 1974).

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 USA 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 (Figure 12.2). Clearly, the sharply lower agricultural prices were seen as an opportunity by the government to accelerate the industrialization process in 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 12.5).[11]

More generally, the distributional impact of protection during the 1930s can be analysed with a sector-specific factors model. Turkey was a land-abundant, capital- and labour-scarce country during the interwar period. Agriculture used land and labour and the urban sector used capital and labour. Despite the possibility of rural–urban migration, labour and capital were 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 labour in agriculture lost but capital and labour in the urban sector gained from protection.[15]

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, shows that agricultural output increased by 50 per cent to 70 per cent 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 per cent per year for aggregate agricultural output during the decade. The official statistics suggest that the big jump in agricultural output occurred in 1936 (Figures 12.1 and 12.3), but crop output may have begun to rise earlier. 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 per cent during the 1930s (Tables 12.1 and 12.5).[16]

The next task would be to explain these substantial increases in output in the face of unfavourable 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

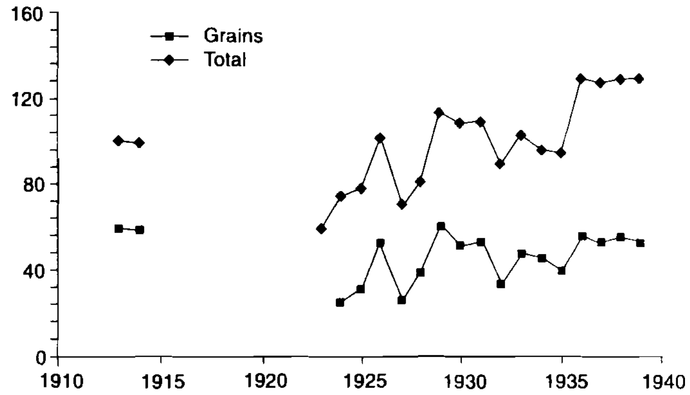

Figure 12.3 Per capita crop production, 1913–1939.

Sources: Based on Bulutay *et al.* (1974), Güran (1997) and Özel (1997).

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 programmes 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 of crops. Despite the rhetoric from official circles, these programmes 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 waged labourers remained rare. Irrigation and the use of commercial inputs such as fertilizers 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 labour 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 an annual

rate of around 2 per cent, the agricultural labour force followed suit, albeit with a time lag, thus facilitating the expansion of the area under cultivation. The basic agricultural trends summarized in Table 12.5 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 per cent during the same period, both confirming the material recovery of the peasant household and facilitating the expansion in cultivated area (Shorter 1985). 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 (Figure 12.3). 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 (Keyder and Pamuk 1984: [illegible]–3).

An additional factor contributing to output growth may have been due to the economic behaviour of peasant households. It is possible that peasant households relying mostly on family labour responded to the lower 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 labour force would support this explanation as well as the argument for the demographic and economic recovery of the family farm.[17]

Sharply lower prices and rising output levels in agriculture thus created very favourable 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 (Figure 12.3).

Conclusions

The case of Turkey during the Great Depression is exceptional in the eastern Mediterranean not only because of the extent of government intervention but also because of the strength of economic recovery. Moreover, the policy mix in Turkey was rather unusual in comparison to the activist government initiatives in other developing countries in Latin America and Asia. Government intervention in Turkey was not designed, in the Keynesian sense, to increase aggregate demand through the use of devaluations and expansionary fiscal and monetary policies. The preference for balanced budgets and a strong currency during the 1930s was closely associated with the Ottoman government's unfavourable experiences with external debt up to 1914 and with a paper-currency-driven inflation during World War I. Instead of expansionary macroeconomic policies, the emphasis was placed on creating a more closed, more autarkic economy ancl increasing central control through the expansion of the public sector. These latter preferences were directly related to the bureaucratic nature of the regime.

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

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 protection created strong incentives for continuetl 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 have had a mixed record against the political and legal opposition during the last two decades.

Notes

1 Diaz Alejandro (1984: 17–39). Compare with Bulmer Thomas (1994: 201–37)
3 Based on a comparison of the agricultural statistics of the 1920s as summarized in Bulutay *et al.* (1974) with the Ottoman statistics before World War I as given in Güran (1997). Also Özel (1997: Ch. 2).
4 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. For example, see Figure 12.1.
5 Zendisayek (1997: 54–106). See also Yücel (1996: 113–30), Boratav (1981: 170–6) and Kazgan (1977: 231–73).
6 Tezel (1986: 144–50). Bent Hansen's (1991a: 374–5) calculations show that the effective exchange rate against the leading trade partners also appreciated sharply during this period.
7 Tekeli and Ilkin (1982: 134–220); Tezel (1986: 197–285); Boratav (1981: 172–89); Hansen (1991a: 324–35); Hershlag (1968: Ch. 4 and 9).
8 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: 174–201).
9 For the close relationship between exchange-rate devaluations and economic recovery in Latin America during the 1930s, see Campa (1990).
10 Yücel (1996: 55–9). It appears unlikely that this *de facto* increasr in the real money supply had a significant impact on the level of aggregate demand.
11 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: Ch. 2), and also Eichengreen (1992).
12 See Table 12.2 and Tezel (1986: 102–3).

13 For the debate, see Hershlag (1968: Ch. 4), Boratav (1981), Keyder (1987: Ch. 5) and Tezel (1986: 197–232).
14 In contrast to the studies approaching the 1930s from the perspective of urban economy and etatism, Birtek and Keyder (1975) 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. 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: 180–6).
15 See O'Rourke (1995; 1997b: 775–81) and compare with the more general Heckscher–Ohlin framework used by Rogowski (1989).
16 Net imports of wheat averaged 2 per cent of domestic production during 1926–9. Net exports of wheat averaged 2.5 per rrnt of domestic production a decade later, during 1936–9. The sources are the *Statistical Yearbooks* (1930–1 and 1940–1) for Turkey and Bulutay *et al.* (1974).
17 This would be consistent with the behaviour of the peasant household as analysed by the Russian economist Chayanov (1987).