1 Introductory remarks

1.1 Theoretical introduction

The theory of peripheral capitalist development in its Marxist version has received a new impetus in the past decade. The study of pre-capitalist modes of production, historical research on specific social formations transforming under the impact of capitalism, and theoretical attempts to formulate a unified framework of world capitalist development have increased our ability to approach the problems posed by non-autonomous developments of capitalism.[1] Such an approach derives directly from Rosa Luxemburg's problematic. Accordingly, the principal attention is focussed on the expansion of capitalism and the ensuing transformation of previously non-capitalist areas. Questions concentrate on the modes of integration of pre-capitalist formations into the capitalist system; and on the resulting patterns of development.[2]

Capital expands its area of operation in its search for higher profits. In the process it penetrates and transforms previously traditional economies, and it fosters the development of commodity production. The result is the expansion of the world market and the imposition of new patterns of specialisation on the new areas. By entering the world division of labour such areas lose their internal articulation to constitute part of the larger unit of the world market. Therefore, the unit of analysis relevant for the understanding of capital accumulation becomes the entire capitalist market, including the new periphery. This growing capitalist economy, however, is not homogeneous: various sub-units are assigned differentiated and hierarchical positions. Accumulation on the world scale implies the extraction of maximum profits by capital within this hierarchical framework.[3]

The position of the periphery in this totality is initially determined by the requirements of merchant capital which introduces world market determinations into the pre-capitalist economy.[4] Merchant capital creates an export sector that produces commodities for the world market, and simultaneously a pocket of consumers demanding imports. It endeavours to expand its area of operations within existing social relations and depending on the specific conditions of natural and other resources. This expansion might be through the installation of petty commodity production or through one or more of the various forms of local exploitation such as plantations, haciendas, on enclave economies employing wage-labour. In its later stages, this expansion involves infrastructural investments such as in railways and ports which carry market incentives to a greater number of producers and allow the expansion of commodity production from the export outlets to the interior.

The principal claim in the approach summarised here is that a given level of integration into the world market results in the periphery's incorporation into the world economy as a subordinate component of that unit. This hierarchical ordering in the world economy begins to condition the history of the periphery: the internal dynamic of the peripheral formation is no longer sufficient to account for its structure.

The systemic position of the periphery does not remain fixed: it is subject to changes depending on the development of the world economy and its particular conjuncture; therefore a specific, historical analysis requires more than a structural identification. It becomes necessary to determine the impact of the conjuncture on the relationship between the periphery and the core areas of the world economy as well as to gauge the changing degree of autonomy that peripheral areas enjoy, depending on the strength of their ties with the world economy.

I have sketched the outlines of the paradigm within which I propose to study a particular example of peripheral structure, Turkey between 1923 and 1929. My purpose in this study of a particular case is to contribute to the elaboration of the theory, especially regarding the description of those mechanisms which act to ensure the integration of the periphery into the world market. As empirical correlative I have chosen to analyse a short period in the history of Turkey's peripheralisation which leads me to describe a certain stage during the peripheralisation process, and not the process itself. For most purposes in the analysis, the entire period will be taken as a single configuration in order to be able to consider together observations from adjoining years. The analysis of the changes during the period is intended to illustrate the process whereby the described patterns are reinforced. In other words, developments during the period show that, since the patterns are reinforced, there is justification in treating our observations as belonging to a structure of longer duration rather than as contingent to a particular conjuncture.

1.2 Remarks on the choice of the period

Similar to other areas in the Mediterranean basin, Turkey had always been inside the immediate penumbra of European capitalism. Yet it was in the nineteenth century that the industrial economies of Europe began to fully exploit the production and market potentialities of the territories inside the Ottoman Empire. As long as the Empire survived with its strongly centralised state tradition, penetration of foreign merchant capital was mediated by bureaucratic authority. Hence, the redistributive pre-capitalist concerns of the Porte conditioned and influenced the pattern of installation of commodity production inside the Empire.

Proper units of the capitalist system are nation states, and not redistributive empires which attempt to create economies with their own internal division of labour.[5] The dismantling of the Ottoman Empire following the First World War was followed by five more years of war which resulted in the foundation of the Turkish Republic in 1923, repudiating all imperial concerns and functions. Thus Turkey was the first peripheral area to become an independent nation state after a long history of capitalist penetration. Because of this political independence, coexisting with economic domination, Turkey's historical experience in the 1920s prefigured the later histories of many a peripheral country.

The main advantage in treating the period at hand, however, lies in the exceptional 'openness' of the Turkish economy between 1923 and 1929. For, five years after the treaty of Lausanne, with which Western powers recognised the existence of the Turkish state, the government was bound by the international agreement to maintain the pre-war level of tariffs. In addition to this imposed inability, the government legislated no restrictions on the movement of foreign capital either as direct investment or in the form of credit. The absence of a central bank, on the other hand, allowed the rate of exchange between the Turkish lira and foreign currencies to be established in the market. In effect, government policy, potentially effective in influencing the degree and pattern of world economic integration, was notably absent. This absence, of course, is an advantage if the purpose is to identify the structuring of the periphery according to forces and information emanating from the more developed centres of Western Europe. The minimal and uninhibitive nature of state activity, therefore, makes of Turkey a particularly attractive laboratory of peripheral integration.

Perhaps the most important factor underlying the behaviour of the state was the international economic conjuncture. The world economy as a whole continued to expand in the 1920s, although with a slackened momentum compared to the pre-war era. Opportunities in the periphery thereby made available to merchant capital were best tapped in an environment least encumbered by political authority. In as much as merchants constituted the dominant and politically effective fraction of the bourgeoisie, the ease of penetration of the Turkish economy was desirable both to the developed economies of the centre and to the dominant economic interests within the country. Once, however, the boom came to an end and trade ceased to be as lucrative as before, political authority found itself in a relatively autonomous position and began to implement the etatist policies of the 1930s. This option, of course, could only be taken together with strict controls over the movement of goods, capital, and currency into and out of Turkey.

While, in one sense, the boom of the 1920s renders our study a general character, it would be wrong to ignore the specificity of the mode of accumulation characterising the period ending with the depression of 1929. In order to analyse the mechanisms of world economic integration, it is necessary to focus on an expansionary phase since expansion itself is the structural necessity of capitalism underlying peripheral incorporation. Peripheral incorporation is a corollary of expanded reproduction, or continual accumulation of capital. In other words, the 'normal' functioning of the capitalist system is ideally reflected in the continual accumulation of a boom period, and the consequent intensification of capital's attempts to structure peripheral areas according to its needs. Yet, within the general parameters of expansion, each stage of capitalist development will exhibit peculiarities. The history of capitalism may be read as a succession of discrete modes of accumulation terminating with general crises. Each mode of accumulation is distinguished by a specific organisation of the forces of production and a world division of labour corresponding to this organisation. Accordingly the mechanisms of world economic integration will also be peculiar to a given stage.[6] An unprecedented expansion of trade through large scale infrastructural investments to constitute a primary accumulation in the periphery was characteristic of the pre First World War period. These projects aimed at expanding the sphere of commodity production in order to allow merchant capital a greater domain of activity. As opposed to the post Second World War period, it was not productive capital whose internationalisation constituted the principal mechanism effecting a world-wide division of labour. Merchant capital remained to be the privileged moment of total capital which performed this function.

By the end of the war, the expansionary momentum of the 1896–1914 period had largely exhausted itself. The decade of the 1920s may be seen as the tail end of the boom starting in 1896, or alternatively as a period of uncertain reconstruction, already signalling the crisis. In either case, the expansion of the world economy continued in the 1920s, albeit uncertainly; and this expansion was conditioned by the mode of accumulation of the previous stage of the world economy. When we analyse the case of Turkey, our findings will reflect this specificity. In other words, we shall be defining a peripheral economy of the 1896–1929 period.

1.3 Methodological remarks

In this study I did not attempt to give a complete description of the peripheral formation of Turkey. That would require a more in-depth treatment of agriculture and industry at the level of actual economic practices. It would also require a discussion of the economic role and the degree of autonomy of the state, which would imply a discussion of its class character. I have instead attempted to draw the main contours of the appearing patterns of economic activity, and have dealt with the state only in so far as its policies influenced the establishment of these patterns. A lengthier discussion of the state would require a different theoretical approach necessitating the determination of the nature of the political instance in the periphery. Hence the treatment here is selective: agriculture and industry provide the abstractions which define and delimit certain areas of activity in the peripheral economy. These areas are then investigated to reveal the basic patterns of integration with the world economy. In agriculture, commodity production for the market provides the principal perspective, because we are concerned with the transformation of a largely subsistence farming agriculture under the impact of commercialisation. The genesis of the new structure is determined by the transformatory impact of markets. Consequently, the morphological change in subsistence agriculture, during the period of its transition to commodity producing agriculture, may be traced through the marketisation of its various components and through the differential impact of other factors – such as land tenure, transportation, prices – on potential marketisation.

In the case of industry, which is the subject of Chapter 3, products were traded in markets to a much higher degree than in the case of agriculture. Here, therefore, instead of the degree of commoditisation, the impact of capitalist penetration may be gauged in the increasing scale of production and changing technology of manufacturing firms. Older manufactures which were oriented to local markets employed few workers, were of small scale and dependent on local sources for inputs. Manufactures which were set up as a result of the economy's opening up to the world economy were of a different nature. They employed greater numbers of wage workers, catered to larger markets, produced new commodities, used imported technology and imported raw materials, and were frequently funded by foreign capital. These differences are discussed on the basis of indices setting traditional and modern manufactures apart. Through this perspective we attempt to evaluate the respective importances of traditional crafts and modern manufacturing and we discuss the pattern of implantation of non-autonomous industry.

While agriculture and industry are the receiving media upon which the patterns of integration are imposed, the discussions of trade, and money and banking seek to describe the structuring forces. In other words, trade and credit are the mechanisms which transmit and implement the requirements of the world economy to the peripheral formation. It should, therefore, be remarked that there is a qualitative difference between agriculture and industry on the one hand, and trade and credit on the other. In a more classical framework this difference might be formulated as production vs. circulation of wealth. In Marxist terms, while agriculture and industry employ productive capital and create surplus value, trade and banks, which respectively represent merchant and interest-bearing capital, receive a part of this surplus value during the process of circulation. My claim, however, extends further in arguing that merchant and interest-bearing capital are forces which ensure the peripheral structuring of the productive forces employed in agriculture and industry.

The justification for this argument is not difficult to establish. Both merchant capital and money capital (or usurer's capital in its primitive form) may co-exist and articulate with pre-capitalist forms of production. This articulation, however, does not entail a potential to transform the prevalent social organisation of production. Both of these forms of capital remain subordinate to the pattern of reproduction of social relations prefigured by the dominant mode of production within the social formation. This same adaptability becomes important during the period of transformation of the pre-capitalist economy through its articulation with capitalism. Merchant and interest-bearing capital act as intermediaries between the systems because they can function in both capitalist and pre-capitalist environments. After the establishment of capitalism proper, they become subordinate to the interests of productive capital in the capitalist country. Since articulation of capitalist and pre-capitalist systems takes place in the sphere of circulation, primarily through trade, it is by means of merchant capital that the capitalist system taps the value created in pre-capitalist economies.[7] It is during this process that already existing native and newly introduced foreign merchant capital begin to penetrate the traditional, untransformed economies. Gradually, the expanding sphere of commodity production comes under the dominance of merchant capital, and the peripheral structure begins to be established.

The role of interest-bearing capital in the peripheralisation process is more complex: on the one hand foreign capital in the form of money seeks a simple valorisation through loans to the colonial state, while at the same time direct lending and bank credit contribute to the shaping of the peripheral economy. In the last half century of the history of the Ottoman Empire, loans by European capital played an important role in its political economy. During the period studied below, however, interest-bearing capital took on a more active role in the instigation of commodity production. As an adjunct to merchant capital, its peripheral function figured predominantly in the designation of areas of economic activity which developed in response to signals from the world market.

Merchant and interest-bearing capital act as the instigators of commodity production during the process whereby a pre-capitalist economy is transformed through its contact with the world capitalist system. An analysis of the workings of these linkages supplies the crucial information regarding both the direction and the modality of the transformation. Only through such an analysis is it possible to justify A. G. Frank's critique of the duality model, or to illustrate the 'world economy' concretely through a specification of the network which binds various levels of the peripheral economy with the metropoles.[8]

Interest-bearing and merchant capital share the additional advantage of international fluidity. Especially when controls on exchanges are weak, foreign funds may easily cross borders as credit or for trade dealings. Since the native counterparts of foreign merchants and bankers are the best placed recipients of such funds, a fusion of foreign and native capital, and a consequent division of labour between the two ensue. This division of labour creates a structure with an unequal relationship where foreign capital, commanding larger resources, more concentrated, with greater information, and enjoying a higher rate of profit as a result of these advantages, plays the dominant role. This dominance enables foreign capital not only to decide about the deployment of its own funds, but also to influence the total flow of funds in the economy. Hence circulating capital, because it plays the crucial role in the articulation between capitalist and pre-capitalist economies, and because it provides the appropriate medium for the cooperation of foreign and native capital, should be the privileged object of analysis in a study attempting to identify the forces structuring the peripheral economy. In as much as these forces emanate from the capitalist world economy, the analysis of circulating capital will provide conceptual reformulations regarding the direction and manner of the influence of central economies on the periphery.

I have summarised the theory underlying the mode of exposition of this study. Since, however, the research is historical, and does not attempt to cover the entirety of a historical process, it is necessary briefly to review the chronological background of the period under study. It is to this historical setting that we now turn.

1.4 Historical background

Beginning in the sixteenth century, various areas within the Ottoman Empire had entered into trade relations with Europe. Until the end of the eighteenth century, however, the central authority could keep movements of commodities under control, although an important volume of contraband trade existed. It was mostly by means of contraband trade that the Balkans came to be integrated into the expanding division of labour of the European economy. As a result of this incorporation, the eighteenth century witnessed extensive changes in crop patterns, and the 'feudalisation' of the Balkan economy. The intensification of trade relations of the entire Empire with Europe began during the third decade of the nineteenth century. From then till the end of the 1830s, Turkey's imports from Britain and France more than doubled, a trend which received further impetus from the series of trade treaties that the Porte concluded first with Britain (in 1838) and then with other European powers.[9] In addition to regulating trade and fixing low duties on both imports and exports, these treaties robbed the Ottoman government of one of its prerogatives which had allowed it to control trade. After these treaties it was no longer possible for the government to grant monopoly rights to appointed merchants; trade was freed from the political control of the central authority, and foreign merchants gained the right to operate freely on Ottoman soil. A further privilege granted to foreign nationals was that foreign merchants were taxed less heavily because natives were subject to the internal octroi in addition to import duties.[10] One result of this capitulatory regime was the almost complete disappearance of native merchants to be replaced by Christian minorities carrying the passports of signatory powers. Escaping Ottoman taxation and jurisdiction, merchants of minority origin became middlemen for foreign trading firms which dealt with Turkey. The impact of the growth of trade was felt especially in the Aegean and the Black Sea regions. As Turkey began to export tobacco, wheat, and fruits, these regions were integrated into a circuit of commodity production, and became part of the world division of labour.[11]

Turkey's imports had increased to a greater extent than her exports. This development, together with the Porte's revenue crisis, led to heavy borrowings beginning in the 1850s. Thus the domination of the market by foreign merchant capital was followed by the implantation of European money capital. After only twenty years, however, the Porte was no longer able to service the growing volume of debt. Its bankruptcy in the 1870s resulted in the establishment of the Public Debt Administration (PDA) which began to collect some of the taxes, monopolised the lucrative tobacco trade, and even made expenditures in the name of the state; in a role similar to the *fermiers géněraux* of the Ancien Régime.[12]

A parallel development during this period was the construction of railways by foreign concessionary companies. Railways extended the domain of the market and increased the output – and therefore the taxes – in the areas within their reach. They were constructed in order to tap the productive potential of the Anatolian interior and to mobilise the potentially marketable agricultural surplus. The railway provided subsistence-farming peasants with access to new technologies and larger markets, and the price incentive to produce surpluses.[13]

During the period of the P. D. A. (1881–1914) net debt inflow no longer offset the servicing outflow, but the Empire began to receive private foreign investments.[14] Following the earlier merchants, and the banks, which had arrived in the 1860s, direct foreign investment gained importance after the 1880s. Two thirds of this investment was placed in railways, the rest in mines, utilities and a few productive concerns. Thus, in addition to commodity-producing sectors dominated by merchant capital, there began the development of a capitalist enclave employing wage labour. It may be argued that foreign investment of this period constituted a 'primitive accumulation' for the Ottoman economy.[15] Between 1881 and 1913, the economy experienced a growth rate of 1.5% p.a., despite the near-bankruptcy of the state.[16] Between 1897 and 1913, cotton cultivation increased fourfold, tobacco by 3.2 times, raisins, hazelnuts, and figs each doubled. In other agricultural products which did not benefit from the incentives offered by foreign markets, increases of output were between 20 and 30%. Of the former group approximately 40% of the output was exported; by contrast only 1.4% of the grain output was exported in 1913.[17]

When the Young Turks came to power (1909) there had been a sufficient development of a native merchant bourgeoisie to prompt them to introduce measures encouraging commercial and industrial undertakings by the Moslem population. However, since the trade regime and capitulatory privileges could not be unilaterally abrogated, Young Turk 'etatism' remained limited. Their crowning economic policy achievement was the law for the Encouragement of Industry (1913). When the war began and the Ottoman Empire sided with Germany, the Capitulations – the Porte's trade concessions to foreign merchants – were renounced, the P. D. A. lost its powers, and the government simultaneously gained both the power of legislating a new tariff and the right of printing paper money – a privilege which until then had been conceded to the Franco-British-owned Banque Ottomane.[18] The four war years witnessed a frenetic pace of economic activity by Turkish capital, which gained new advantages through encouragement by the government and government-supported banks.

Another significant development ushered in by the Young Turks was a shift through which Germany began to gain a dominant position among the contending economic powers in the Empire. Germany and her financiers expected the Istanbul government to provide a crucial bridgehead for Germany's commercial expansion to the Near East. When the war was lost, however, the Near Eastern provinces were divided among French and British spheres of influence. The area which later became Turkey escaped such an assignation due to the clash of major and minor interested parties, and to the success of the independence movement led by Mustafa Kemal. As a result of the Greek war, Turkey established its politically independent stature, but opened its economy equally to capitalists of all nationalities, and thus became one of the few countries where 'Open Door' conditions actually held.

In the history of Turkey's growing integration into the world capitalist system, the Young Turk episode was a short-lived attempt at attaining a new status in the world division of labour. The Young Turk policy, which was aided by a major disruption of the world economy because of the war, aimed to reconsolidate the Ottoman Empire under the domination of the central authority. Germany, whose interests coincided with the Young Turks' intention to prevent a British–French partition of the provinces, became their willing ally. This temporary and incomplete 'revolt' against the world hierarchy was forcefully terminated at the end of the war. In fact, the period we shall be studying was a continuation of the trends which were established prior to the Young Turk period.

The 1923–29 period ended with a general crisis of the world economy. When the depression and later the war upset the mechanisms which integrated the world capitalist system, the Turkish economy attained a relative independence, and state-directed policies once again sought to establish an autarkic alternative to peripheral development.

We will now turn to analysing the 1923–29 period, which constitutes the subject of this study.