

FINANCE AND THE BOURGEOISIE: THE ESTABLISHMENT OF PRIVATE  
SECTOR BANKING IN TURKEY (1946-1958)

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FINANCE AND THE BOURGEOISIE: THE ESTABLISHMENT OF PRIVATE  
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Title: Finance and the Bourgeoisie: The Establishment of Private Sector Banking in Turkey (1946-1958)

This study, a major premise of which is that finance cannot be considered separately from socio-political power relations, examines the rise of private sector banking in relation to the transformation of the bourgeoisie in Turkey after the Second World War. By looking at the financial sector in the 1950s in a historical and social context, this work tries to assign hitherto neglected finance its place. Stipulating that in late-capitalized countries finance capital organizations usually emerge as conglomerates, the study attempts to contextualize the developments in the finance sector and the rise of the bourgeoisie in the post-war period to understand the emergence of finance capital and conglomerates in Turkey.

## ÖZET

Atatürk İlkeleri ve İnkılap Tarihi Enstitüsü'nde Yüksek Lisans derecesi için Dünya Ahtem Öztogay tarafından 2014'te teslim edilen tezin özeti

Başlık: Finans ve Burjuvazi: Türkiye'de Özel Bankacılığın Kurulumu (1946-1958)

Kısaca, bu çalışma İkinci Dünya Savaşı sonrasında Türkiye'de özel bankacılığın yükselişini ve bu yıllarda dönüşüm içindeki burjuvaziyle ilişkisini anlamaya çalışmaktadır. Finans, sosyo-politik ilişkilere dışsal değildir. Bu çalışma tarihsel ve toplumsal bir bağlam içinde 1950'lerdeki finans sektörüne bakarak finansı yerine oturtmayı amaçlar. Geç kapitalistleşen ülkelerde finans kapitalin biçimi holdingler şeklinde olmaktadır. Bu anlamda çalışmanın diğer bir amacı da II. Dünya Savaşı sonrası dönemde finans sektörünün genişlemesini ve burjuvazinin yükselişini bağlamsallaştırarak Türkiye'de finans kapitalin ve holdinglerin oluşum sürecini anlamaktır.

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# CHAPTER I

## INTRODUCTION

What do we understand about finance and how do we perceive what is "financial"? Does finance have a self logic and is it only a mathematical indicator of capital markets and banking operations or does finance have a socio-political base and place in the general economy? In general, when studies relating to the financial sector are analyzed, finance is too often found to be treated as a sui generis area, explained with its own self logic and extracted from its socio-political context. However, finance is a part of the economy as a whole, and has significant weight in determining and being determined by socio-political developments. In this context, the main engine of the activities and institutional changes in the financial area is not the rationality of mathematics, but political and social changes.

In the contemporary world, the financial sector has become dominant, and it has become much easier to find an example of these interactions. For instance, when the governments or political actors make important decisions, they wait until the stock market is closed. Also, macro developments in the political field have an impact on the financial, and sudden changes in the financial field are reflected in the socio-political base. The social manifestation of this is seen in the changes in the balance of power among the classes.

Changes in the political regime and power, and big social movements resonate in the financial area. Also, as a reflection of sudden changes in financial area in social base, changes in the balance of power among the classes signal a change in the power bloc and relations between the dominant and subordinate classes. In this context, it can be concluded that the actual rationality of finance is

determined not by mathematical formulations, but by the socio-political base and developments in a given country.

Historically, the emergence of finance corresponded to changes in class relations. Basically, finance is as a part of capitalist economy. The establishment of banks and capital markets coincided with a phase of capitalist development. With the rise of industrial capitalism, the finance sector emerged as an important aspect of industrial development. In that sense, banks, as the main institutions in the financial field played a crucial role in financing industrial investments and providing the progression of capitalist growth. Thus the capitalist dominant classes found a way to separate themselves from full economic dependence on the state and the competition of the bourgeoisie in the power bloc became one of the main factors of the changes in the political stage. Developments in financial relations contributed to the transformation and reorganization of the bourgeoisie itself. Hence, the emergence of the financial sector determined the internal competition of the bourgeoisie and the relations in the power bloc. The need for a finance sector of the bourgeoisie is directly related to the phase of the capitalist development in a given country.

In the early Republican period, the industrial bourgeoisie was weak. The banks and financial sector existed mainly in support of the commercial bourgeoisie. The banks of the period financed public investments and limited private entrepreneurships. The first real growth of the financial sector occurred after the Second World War. Especially in the 1950s, in parallel with the world capitalist expansion, the bourgeoisie, which was mainly commercial bourgeoisie, began to invest in industrial areas and the existence of an industrial bourgeoisie came into prominence. The banking sector developed to finance the investments and the post-war period witnessed the expansion of private sector banking. The newly

strengthening industrial bourgeoisie perceived banking as a necessity for growth, and by the 1960s, with facilitation through legislation, the capital groups had re-formed themselves as conglomerates and finance capital organizations.

This study examines the transformation of the Turkish bourgeoisie in relation to the expansion of the finance sector in Turkey. By looking at the establishment of private sector banking in the post-war era it examines the intentions of the bourgeoisie in the financial area and to show how Turkish banking helped in the development and reorganization of the bourgeoisie as finance capital organizations. This relates to a basic question that derives from the banking history of Turkey. Although there was no change in the banking law between 1936 and 1958, private sector banking flourished and branch offices spread throughout the country in the early 1950s. Clearly, there were more silent, salient processes taking place, related to rapid socio-political changes and the post-war development of class relations. This study will elaborate on these as well.

### Historiography

The literature regarding private sector banking, conglomerates and finance capital is uninspired. It can be divided into two parts, literature derived from business administration and management studies or related institutional histories, and literature that discusses finance in socio-political power relations.

The first group of studies outweighs the second. The literature on banking in Turkey is mainly constituted by works from the management and finance departments of universities or by retired upper management officers of the banks. These studies mainly focus on the quantitative expansion in the financial area and do

not attempt to relate banking to the socio-political and class relations in Turkey, or for that matter, historicize or articulate banking within its political economy.

The literature regarding the foundation years of private sector banking is clearer, although there are not many sources on the banking history before the 1960s. This is because of the reorganization of capital groups as conglomerates and the consolidation of finance capital, occurred after the 1950s. This is to be regretted, because the foundation of finance capital organizations and the rise of private sector banking and an industrial bourgeoisie are laid actually in the post-war era before 1960s. The other reason is more technical. There is lack of a proper registration, and information on the banks before the establishment of Turkish Union of Banks in 1958.

The principal studies belonging to the first group of the literature mostly rely on Central Bank reports and do not have broad information about the banks individually. However, the general growth of banking from these works can be read. Zeyyat Hatibođlu's work<sup>1</sup> concentrates on bank assets and liabilities. The study also has a chapter on the general history of banking in Turkey, but it is not as detailed as Mesut Erez's,<sup>2</sup> and Tuncay Artun's<sup>3</sup> works. Artun's work separates itself from the other in terms of its historical narrative. He contextualizes the history of Turkish banking with capital movements and the intensification and centralization of capital. Tezer Öcal's book is derived from his Ph.D thesis.<sup>4</sup> It focuses on the operation of the Turkish banking system and highlights the legislative changes regarding Turkish banking.

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<sup>1</sup> Zeyyat Hatibođlu, *Türkiye'de Bankacılık* (İstanbul: Sermet, 1964).

<sup>2</sup> Mesut Erez, *Bankalar Sistemi ve Devlet Kontrolü* (Ankara: Ayyıldız, 1975).

<sup>3</sup> Tuncay Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık* (İstanbul: Tekin, 1980).

<sup>4</sup> Tezer Öcal, *Türk Banka Sistemi* (Ankara: Emel, 1973).

Other than these, the works of Teoman Yazgan<sup>5</sup> and Halil Çivi<sup>6</sup> mainly analyze data after the 1950s and do not provide much information about the rise of private sector banking. However, Çivi mentions the general characteristics of banking in the post-war era. Perhaps the best two works in the first group of literature are those by Arslan Yüzgün<sup>7</sup> and Öztin Akgüç<sup>8</sup>. These two have specific data ranging from the total deposits and credits of the banking sector to the deposit and credit amounts in individual banks. Specifically, Yüzgün's study provides some important information on big private banks in the 1950s, like İş Bankası, Yapı Kredi and Akbank are analyzed in detail in this thesis. Regarding İş Bankası, Uygur Kocabaşoğlu's study<sup>9</sup> offers extensive information and is the prime work regarding the bank. Because it was a semi-state enterprise, the records and historical data of İş Bankası have been kept more properly, serving to facilitate its analysis. Kocabaşoğlu's remarkable work presents the history and development of the bank by incorporating it in the political and economic history of Turkey. It differs from other institutional historical bank studies, which mainly focus on the post-1960 period. It is also the closest work to, and primary source for, the second group of literature. In general, even the second group of literature is not sufficient in historicizing Turkish banking with regard to the socio-political and economic history of Turkey; it is valuable for its data on the period before the 1960s.

The second group comprising finance as part of economic and socio-political developments is remarkably small compared to the first group. Generally it focuses on the decades when finance capital organizations consolidated themselves (the

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<sup>5</sup> Teoman Yazgan, *Türkiye'de Bankacılık* (İstanbul: Reklam, 1973).

<sup>6</sup> Halil Çivi, *Türkiye'de Bankacılık: Teori, Uygulama ve Sonuçlar* (Ankara: Fon, 1985).

<sup>7</sup> Arslan Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi (1923-1981)* (İstanbul: Der, 1982).

<sup>8</sup> Öztin Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler* (Ankara: Tisa, 1975).

<sup>9</sup> Uygur Kocabaşoğlu, et. al., *Türkiye İş Bankası Tarihi* (İstanbul: İş Bankası Kültür Yayınları, 2001).

1960s and 1970s) and when records and data were kept more accurately than before and were more accessible.<sup>10</sup> An exception is Y.N. Rozaliyev's work,<sup>11</sup> which originally was published in 1962. In his "early" study, Rozaliyev defines Sümerbank and İş Bankası as the early finance capital organizations of Turkey and tries to articulate his socio-historical narrative to the history of capitalist expansion in Turkey. The book is a methodologically inspiring attempt, but lack of sufficient information and data prevents it from being a primary source on the subject.

In the socio-historical understanding of the subject, the most comprehensive sources belong to Ayşe Buğra and Özgür Öztürk.<sup>12</sup> Mustafa Sönmez's work<sup>13</sup> is similar to Buğra's and Öztürk's in classification, but concentrates on post-1980 Turkey. Buğra's and Öztürk's studies examine finance and capital groups historically. There is a common theme in the two studies: the late capitalization of Turkey affected the structure of finance capital and business. The reorganization of the big bourgeois family businesses as conglomerates was a result, of the conditions of late capitalization. Besides methodology, the main difference of the two works is that Buğra relates the expansion of the capital groups in the different sectors to socio-cultural ties. For Öztürk, this is a contradiction. The differentiation of investments and the re-organization of the bourgeoisie were structural results of capitalist development.

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<sup>10</sup> The most important are Mustafa Sönmez, *Türkiye'de Holdingler: Kırk Haramiler* (Ankara: Arkadaş, 1987); Fuat Ercan, "Meta ve Para Analizinde Finans Kapital (1970 Sonrası Yaşanan Ekonomik İlişkiler İçin Teorik Bir Çerçeve)," *Ekonomik Yaklaşım* 27 (1997): 157-186; İlhan Tekeli, "Türkiye'deki Şirketlerin Gelişimi ve Kapitalin Yoğunlaşma Süreci," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1985): 2386-96; Gülten Kazgan, "Büyük Sermaye Gruplarının Türkiye Ekonomisindeki Yeri," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1985): 2397-2410.

<sup>11</sup> Y. N. Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri (1923-1960)* (Ankara: Onur, 1978 [1962]).

<sup>12</sup> Ayşe Buğra, *State and Business in Modern Turkey: A Comparative Study* (New York: State University of New York Press, 1994); Özgür Öztürk, *Türkiye'de Büyük Sermaye Grupları: Finans Kapitalin Oluşumu ve Gelişimi* (İstanbul: SAV, 2011).

<sup>13</sup> Sönmez, *Türkiye'de Holdingler*.

This study is closer to the second group of literature. Finance, as a part of the socio-political and economic field, cannot be separated from the capitalist development of the country. The importance of socio-cultural elements is a fact, but cannot be the main determinant of where the capitalist relations are dominant. In this sense, the study is inspired by Öztürk's work. As distinct from Öztürk's work, however, here this framework will be applied to the development period of private sector-banking. A handicap in this attempt has been the insufficiency of sources on individual banks. But the data regarding banking in general were sufficient to contextualize the rise of private sector banking and articulate it to the strengthening industrial bourgeoisie. Thus, this study aims to reveal the transformation of the capital-class and the role of finance before the consolidation of finance capital organizations in the 1960s and 1970s.

#### Theory: The State, Bourgeoisie, and Financial Sector

As mentioned at the beginning of the introduction, it is almost universally accepted today in society to detach finance from the economy and present it like an area distinct from society. From this perspective, finance has its own logic depending on complex mathematical variations; calculations and financial institutions operate independently apart from socio-political developments unless, of course, big financial crises bring the financial institutions to the foreground. The bourgeois social sciences pioneer this kind of perception of finance consonant with capitalism. Studies on the finance sector mainly regard it as outside the political-economic conjuncture of given social formations. In that sense, in the ongoing discussions and analyses about economics, the field of finance is either mostly excluded, or is treated

as a separate area. Therefore, it is crucial to put finance in its place so that is not disjoined from socio-political and economic developments. In the following part, I will focus on the specificity of capitalism that conceals the relations of power by fragmenting it into distinct levels.

Finally, this study is by Marxist theory, especially its variants as espoused by the scholars whose names are given in footnotes of sections below.

### On the Capitalist Decomposition of Social Formations

The status of finance, as discussed above however, is not an exception since the capitalist mode of production relies on splitting the layers of whatever is related to the social in terms of the ideology of individualism. In this context, finance's subjugation to the economic field is of little help, because the hegemonic ideology sees the economy as disconnected from the rest of society. In other words, the concept of economy is limited mainly to the operation of markets and seen as divorced from states, classes, and power in the capitalist ideology.

The capitalist mode of production differs from the precapitalist modes of production by its dependence on specific class relations. One of the distinctive characteristics of class domination in capitalist society is that it is mediated through commodity exchange. When labor power turns into a commodity, exchange in market relations excludes the other non-economic forces. The separation of owners of labor power from the means of production and the conversion of labor power into commodities in the market by contract relations abstract the relations of exploitation, and conceal political force and class relations. In that sense, social relations in capitalism are divided into new forms of political and economic relations. Here the

state presents itself as the public authority that is the crystallized stage of “general will” and protector of the social order.<sup>14</sup>

As Ellen Meiksins Wood remarks, the specificity of capitalism lies behind the mystification of the separation of the economic and the political. Precapitalist forms of political power comprise coercion to absorb the surplus value in the process of exploitation, but in capitalism, exploitation is more often than not materialized outside the direct intervention of the state between individuals via property and contract relations.<sup>15</sup> Since the coercive intervention of the state in the exploitation process is a lot less, capitalism mystifies that the state is a political entity distinguished from economic relations. Wood writes that,

The differentiation of the economic sphere in capitalism, then, can be summed up like this: [...] the social allocation of resources and labor does not, on the whole, take place by means of political direction, communal deliberation, hereditary duty, custom, or religious obligation, but rather through the mechanisms of commodity exchange. The powers of surplus appropriation and exploitation do not rest directly on relations of juridical or political dependence but are based on a contractual relation between 'free' producers --juridically free and free from the means of production-- and an appropriator who has absolute private property in the means of production.<sup>16</sup>

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<sup>14</sup> Gökhan Demir and Dünya Ahtem Öztogay, “Hegel ve Marx’ta Sivil Toplum,” *Doğu Batı* 55 (2011): 111-138, pp. 126-127. Also see Gülnur Acar-Savran, *Sivil Toplum ve Ötesi: Rousseau, Hegel, Marx* (İstanbul: Belge Yay., 2003), p. 191; John Holloway and Sol Picciotto, “Capital, Crisis and the State,” *Capital and Class* 2 (1977): 76-101, p. 79; Ellen Meiksins Wood, “The Separation of the Economic and the Political in Capitalism,” *New Left Review* 127 (1981): 66-93, pp. 80-81; Joachim Hirsch, “The State Apparatus and Social Reproduction: Elements of a Theory of the Bourgeois State,” in *State and Capital: A Marxist Debate*, eds. John Holloway and Sol Picciotto (London: Edward Arnold, 1978): 57-107; Bernhard Blanke, Ulrich Jürgens and Hans Kastendiek, “On the Current Marxist Discussion of the Analysis of Form and Function of the Bourgeois State,” in *State and Capital: A Marxist Debate*, ed. John Holloway and Sol Picciotto (London: Edward Arnold, 1978): 108-147.

<sup>15</sup> Ellen Meiksins Wood, *Democracy Against Capitalism. Renewing Historical Materialism* (Cambridge: Cambridge University Press, 1995), pp. 21-22.

<sup>16</sup> *Ibid.*, p. 29.

In discussing finance, first of all, the specificity of capitalism and its doxa on the fragmented structure of the social based on distinct levels must be revealed. It is therefore necessary to emphasize the importance of the states' role in the making of economic policies, the regulation of market relations and its interaction with social classes.

As Karl Polanyi notes, the state is always embedded in the economy and configures the accumulation of capital while it is also configured by the interaction with society.<sup>17</sup> In that sense, the institutional separation of the economic and political is a falsification of capitalist logic serving to conceal state actions. In a given social formation, the state is in a key role in the relations of production formed by the dominant mode of production and in the reproduction of its conditions. State and society are not the opposite poles; the state is implicit in social relations. Bob Jessop argues that even for its institutional separation and autonomy, the state remains as a part of society.<sup>18</sup> Although the state is formed around an illusionary community and general will, it is not an entity outside society and is politically selective in terms of some wills and interests.<sup>19</sup>

To identify the capitalist character of the state, Jessop notes there must be a state power which creates and reproduces the conditions required for capital accumulation in a given situation.<sup>20</sup> When the state becomes an actor in the reproduction of capitalist social relations, it assumes itself as the protector of “the general interest of whole society” and “nation” by some specific institutions embedded in society to conceal the political class domination within the separation

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<sup>17</sup> Karl Polanyi, *The Great Transformation. The Political and Economical Origins of Our Time* (Boston: Beacon Press, 2001).

<sup>18</sup> Bob Jessop, *State Theory: Putting the Capitalist State in Its Place* (Cambridge: Polity Press, 1990), p. 365.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid., p. 354.

of economic and political spheres shown in class/citizenship nexus.<sup>21</sup> It isolates political persons from socio-economic relations as private individuals and prevents the political organization of the subordinate classes by force if necessary while preserving its own class character.<sup>22</sup>

Assertions on the absence of class struggles and the protection of accumulation of individual interests instead of class interests come from the isolation effect of the capitalist state. Nicos Poulantzas writes that the state presents itself as the constitution of individuals and as the representative of the national popular will while economic class relations are reduced to interpersonal relations by juridico-political and ideological constructions.<sup>23</sup> The masses experience capitalist relations as isolated individuals, workers or, for that matter, capitalists in market relations,<sup>24</sup> and “competition” in the market puts a veil over the effect of isolation in socio-economic relations.<sup>25</sup>

Therefore, the states come into prominence by their political activity in the institutional separation of politics and economy specific to capitalism and conceal their impacts on economy by certain political functions. The state presents itself as a “popular-class state” and its institutions are constituted on the principles of the liberty and equality of individuals. The people are not composed as agents of production, but as a composition of individuals/citizens who express themselves by universal suffrage which is the “general will” of the state.<sup>26</sup> Thus the state alienates itself from the relations of production. But this is the part of the hegemony process of

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<sup>21</sup> Nicos Poulantzas, *Political Power and Social Classes* (London: NLB, 1973), p. 123.

<sup>22</sup> *Ibid.*, p. 189.

<sup>23</sup> *Ibid.*, p. 133.

<sup>24</sup> Bob Jessop, *The Capitalist State: Marxist Theories and Methods* (Oxford: Martin Robertson, 1982), p. 174.

<sup>25</sup> Poulantzas, *Political Power and Social Classes*, p. 131.

<sup>26</sup> *Ibid.*, p. 123.

dominant classes, i.e., the state acts as a mediator to manufacture the consent of subordinate groups.<sup>27</sup> Hegemony is thus established upon subordinate classes and bourgeoisie class fractions in the power bloc.

The concept of hegemony has its roots in Marxist literature. But its popular use comes from Antonio Gramsci, who adopted it from the political discourse of Russian Social Democracy and the Third International.<sup>28</sup> The term “hegemony” evolved in three stages in the Gramscian sense. At first, within the sphere of Russian politics, hegemony meant “leadership of a class alliance.” In this sense, the concept is linked with other concepts such as Jacobinism and the national-popular.<sup>29</sup> It refers to what Gramsci described as the “expansion beyond economic class interest into the sphere of political direction through a system of class alliances.”<sup>30</sup> In the *Prison Notebooks*, the content of the concept expanded in two ways. First, it is applied to the rule by other social classes (the bourgeoisie) and to the different periods of history; and second, with its expanded aspect, hegemony refers to what Gramsci called “cultural, moral and ideological leadership over allied and subordinate groups.”<sup>31</sup> The hegemony of the dominant classes was mediated by the state, and for Gramsci, the state was “hegemony protected by the armor of coercion.”<sup>32</sup>

Jessop offers “hegemony project” as a term to examine hegemony that shows cyclical differentiations within the interactions between actors on the political stage and classes. Its success depends on what he calls its structural determination,

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<sup>27</sup> Jessop, *The Capitalist State*, p. 155.

<sup>28</sup> David Forgacs, “Hegemony,” in *The Antonio Gramsci Reader. Selected Writings 1916-1935*, ed. David Forgacs (New York: New York University Press, 2000), p. 422. Also for a detailed examining of Gramscian usage of hegemony in pre-Prison Notebooks see: Christine Buci-Glucksmann, *Gramsci and the State*, trans. David Fernbach (London: Lawrence and Wishart, 1980), pp. 153-195.

<sup>29</sup> *Ibid.*, p. 423.

<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*

<sup>32</sup> Antonio Gramsci, *Selections from the Prison Notebooks*, ed. and trans. Quintin Hoare and Geoffrey Nowell Smith (New York: International Publishers, 1992), p. 263.

strategic orientation and its relation to accumulation.<sup>33</sup> Then, hegemony projects balance the tension between agency and structure within this strategic-relational perspective.

The character of the capitalist state and its hegemonic nature should be kept in mind when examining the structures of finance capital and conglomerates. From a relational perspective, states directly or indirectly play key roles in the economic area. State managers and actors on the political stage are involved in the flow of the economy by regulations, legislations, and hegemony projects to rule the subordinate classes while they themselves are being structured by capitalist relations.

### Finance Capital and Conglomerates

The concept of finance capital was popularized by Vladimir Ilyich Lenin,<sup>34</sup> although it originated from a book by Rudolf Hilferding named *Finance Capital*, published in 1910.<sup>35</sup> Hilferding stated that the concept of finance capital signals the union of industrial and finance capital while also containing commercial capital. Despite the supervision by banks as the dominant factor, finance capital regards the joint constitution of finance, industry, and commerce. This is not an ordinary constitution or a dealing in these three sectors. The process also requires the monopolization and socialization of production, which, as a system, and with nearly every sector in the market, is in the control of big capitalists. Briefly, finance capital represents big capitalist groups that integrate financial, industrial and commercial

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<sup>33</sup> Bob Jessop, "Accumulation Strategies, State Forms and Hegemony Projects," in *The State Debate*, ed. Simon Clarke (New York: Palgrave, 1991), p. 172.

<sup>34</sup> V. I. Lenin, "Imperialism, The Highest Stage of Capitalism," in *Collected Works. vol. 22, December 1915-July 1916* (Moscow: Progress Publishers, 1964), p. 210.

<sup>35</sup> *Ibid.*, pp. 198, 226, 235, 242, 289, 297.

operations in their organizations or characterizes monopoly capital in a certain sector.<sup>36</sup>

Finance capital as a description of the distinguished process of capital formation has its roots in the imperialist phase of capitalism. During the concentration and centralization of capital in late nineteenth – early twentieth century, banks too experienced the same progress of concentration and centralization. On the one hand, there was competition that facilitated the concentration in the credit system; on the other, increasing concentration in industry caused the growth of banks. Banks dominated industry not only through credits, but also by purchasing controlling stocks. Thus, the boundaries between industrial and banking monopolies began to evaporate. This intertwining of monopoly industrial capital and monopoly bank capital resulted in the emergence of finance capital.<sup>37</sup>

The purpose of Hilferding in using the concept of finance capital is to conceptualize the important economic transition in capitalism. He explains the emergence of monopolies with Marxian explanations as the tendency of concentration and centralization of capital. In connection with the specific position of credits during the concentration and centralization process, the importance of bank capital increases parallel to monopolization. Through this transition, finance capital becomes the dominant power in the advanced capitalist society as the leading form of monopoly capital.<sup>38</sup>

Lenin also spoke about finance capital in his analysis of imperialism following the writings of Hilferding. He claimed that the primary function of banks was to mediate payments to transform inactive money to active in the purpose of

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<sup>36</sup> Öztürk, *Türkiye’de Büyük Sermaye Grupları*, pp. 21-23.

<sup>37</sup> Şirin Tekeli, “Emperyalizm,” in *Sosyalizm ve Toplumsal Mücadeleler Ansiklopedisi* (İstanbul: İletişim, 1988): 424-455, p. 428.

<sup>38</sup> *Ibid.*, p. 436.

making profit for the capitalist class. With the development and concentration of banking, the banks grew into powerful monopolies that controlled almost all of the parts of money capital and the means of production. According to Hilferding, this was the process of the emerging of finance capital. Lenin noted that the whole process consisted of personal linkages and mergers between the banks and industrial and commercial enterprises by appointing directors on each other's boards.<sup>39</sup>

The importance of the concept of finance capital lies in the ability of capital to free itself from dependence on particular production branches and to gain flexibility as well as speed, and move across other sectors and economic activities, gradually taking control of the distribution of the resources of the whole economy.<sup>40</sup> Hilferding wrote that the development of finance capital went arm in arm with the development of the joint-stock company, reached its peak with the monopolization of industry, and attained its greatest power with the creation of cartels and trusts.<sup>41</sup> The process completed a cycle in the development of capitalism. Hilferding wrote,

At the outset of capitalist production money capital, in the form of usurers' and merchants' capital, plays a significant role in the accumulation of capital as well as in the transformation of handicraft production into capitalism. But there then arises a resistance of 'productive' capital, i.e. of the profit-earning capitalists --that is, of commerce and industry-- against the interest-earning capitalists'. Usurer's capital becomes subordinated to industrial capital. As money-dealing capital it performs the functions of money which industry and commerce would otherwise have had to carry out themselves in the process of transformation of their commodities. As bank capital it arranges credit operations among the productive capitalists. The mobilization of capital and the continual expansion of credit gradually bring about a complete change in the position of the money capitalists. [...] Finance capital] is the synthesis of usurer's and bank capital, and it

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<sup>39</sup> Ibid., p. 220.

<sup>40</sup> Sungur Savran, *Kod Adı Küreselleşme: 21. Yüzyılda Emperyalizm* (İstanbul: Yordam, 2008), p. 61.

<sup>41</sup> Rudolf Hilferding, *Finance Capital: A Study of the Latest Phase of Capitalist Development* (London: Routledge & Kegan Paul, 1981), p. 225.

appropriates to itself the fruits of social production at an infinitely higher stage of economic development.<sup>42</sup>

Hilferding's thesis, still has resonance today, though modifications are necessary. In advanced capitalism new markets are rendered efficient by the presence of venture capital, private equity firms and mutual and hedge funds, portfolio managers.

These in turn provide the role ascribed by Hilferding to money-dealing finance capital which industrial and commercial firms would have had to carry out themselves. Where such firms and such markets are lacking, this role has to be taken by the original industrial or commercial firms themselves. There are exceptions to the rule, of course, in both advanced capitalist countries where a conglomerate or two may be quite successful in utilizing or allocating funds (e.g. General Electric or Berkshire Hathaway in the U.S.), and in developing countries where finance-capital forms other than conglomerates may be successful (such as some private equity firms in Turkey).

Although Hilferding's approach was useful for this thesis, the concept of finance capital used here differs from his explanation where the term is used to denote the top of the capitalist pyramid in advanced capitalist countries. Here, the concept is used instead to refer to the historical capitalist development in the late capitalized countries, the intersection of bank, commerce and industrial capitals come to the foreground rather than a pyramid-like formation. The concept of finance capital signals new relations between individual capitals and is a concrete power center in relation to the determination of the individual capitals over the social cycle

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<sup>42</sup> Ibid., p. 226.

of total capital in a given country, just like the centralization and intensification of capital.<sup>43</sup>

The intensification of capital is related to the mechanisms of capitalist expansion. Increasing labor productivity means an increase in the profit margin of capitalists. The basic way of increasing labor productivity is to use more and more machines in production. Widening the scale of production in terms of volume and expansion in a defined geography tends to show an increase in the means of production (i.e. in the use of machines) while the usage of solely labor lowers. This is the process of the intensification of capital.<sup>44</sup>

The centralization of capital follows the latter's intensification. It is better observed during economic crises.<sup>45</sup> When capital is centralized, the weaker capitalists are eliminated by the stronger capitalist groups. Few in number, but strong, capitalist groups take over the market by eliminating many mid-to small-sized businesses. The emergence of monopolization and finance capital is thus a joint result of the intensification and centralization process.<sup>46</sup>

Parallel to the progress of capital accumulation, finance gradually became important in meeting the production and money needs of productive capitalists. Moreover, it led to competition among productive capitalists themselves for monetary possibilities, which in turn could lead to money-capital formation alongside their activities. The increasing need for money-capital resulted in the development of a corresponding money market and the development of banks signifying its progress and institutionalization. Banks hold money-capital, one of the

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<sup>43</sup> Ercan, "Meta ve Para Analizinde Finans Kapital," p. 166.

<sup>44</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 68.

<sup>45</sup> *Ibid.*, p. 69.

<sup>46</sup> *Ibid.*, pp. 69-71.

main components of capital accumulation process, and tend to influence productive capital by the possibilities of money capital.<sup>47</sup>

Finance capital as referred to in this thesis could thus be defined as the coalition of the industrial, money, and commercial capital to control the value created in the production process systematically. Fuat Ercan notes that the concept of finance capital is not only an abstraction that differs from financial capital (such as stocks and bonds), it is also a result of the centralization of the capital to reveal itself as big companies and financial groups.<sup>48</sup>

Here, the particularity of late capitalized countries becomes apparent in the following manner: Öztürk writes that the monopolization process in countries like the US and England took place through the centralization of capital. But in countries like Turkey, the monopolization first took place in the money capital area. Since capitalist production began directly in the factories, the capitalist who could access sufficient money-capital to establish a factory in certain sectors became a monopolist in a short time and held the market advantage over late comers. In this way, monopolies in certain sectors made large profits and transferred them to other virgin sectors. Thus, big capitalist groups operating in multiple sectors emerged and got rich in this beginning phase, which roughly corresponds in Turkey to the years 1923-1960.<sup>49</sup>

In the late capitalized countries, the intensification and centralization phase of capital arrives quicker than early-capitalized countries. Using late comer advantages, the late capitalized countries only establish the units appropriate to the latest technical and organizational forms. They do not follow every step of the capitalist

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<sup>47</sup> Ercan, "Meta ve Para Analizinde Finans Kapital," p. 167.

<sup>48</sup> Ibid.

<sup>49</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, pp. 71-3.

development of early capitalized countries. The very result of this process is differentiation in the organization of mass production. In other words, unrelated diversification and diversified enterprises become the structural form of business and mass production in late capitalized countries.<sup>50</sup>

Diversified business groups comprise broad parts of unrelated sectors. Late industrialism provides the groups access, enable to spread into unrelated industrial sectors, and build a close relationship between corporations and financial resources. If the organization is led by one family, there could be close relations between the entire industrial sectors dominated by the group. Spreading into large sectors of industry while keeping the central coordination usually provides an advantage in accessing new industrial fields. The common point of the conglomerates in late capitalized countries is that they are family firms acting in unrelated sectors.<sup>51</sup> A central holding company and even some individual firms of the group are mainly controlled by the members of the same family.<sup>52</sup> The conglomerates in Turkey are examples of these types of multi-activity groups.<sup>53</sup> Therefore, the emergence of the large-scale non-financial firms along with the related banks which control the flow of money-capital in the social cycle of the aggregate capital, is not the reason of the control, but a result of internal dynamics of capital accumulation process.<sup>54</sup>

For the historical period of concern in this thesis the major forms of finance capital were conglomerates. The comeback of conglomerates even in the developed countries with advanced capitalist models show that there is a need to revise theory. Globalization and the chances it offers in diversifying assets and activities the world

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<sup>50</sup> Melda Yaman Öztürk, *Geç Kapitalistleşme Sürecinde Kriz: Türkiye 1979 Krizi* (İstanbul: SAV, 2008), p. 149.

<sup>51</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 16.

<sup>52</sup> Buğra, *State and Business*, p. 207.

<sup>53</sup> Ibid.

<sup>54</sup> Ercan, "Meta ve Para Analizinde Finans Kapital," p. 169.

over, including in the developing countries, indicate that conglomerates may be an useful model wherever and whenever there are inefficiencies to be exploited. In other words, their presence and success cannot be solely explained by a linear historical trajectory and the single rule that the less advanced economy, the more preferred is the conglomerate form. The preference of conglomerates as a business form is contingent upon political -economic developments rather than a progressive time line. It is an opportunistic business form and thus a contingent capitalist model.

Similar conglomerate formations exist in other late capitalized countries such as South Korea (called “*chaebol*”), Mexico, and India (called “*business house*”).<sup>55</sup> The bourgeoisie organized their industrial and commercial assets as holdings or group of firms with in countries like Brazil, Mexico, Malaysia, Kenya, Nigeria, Pakistan, India, and South Korea.<sup>56</sup>

When the state appears as a crucial factor in determining the boundaries of the private sector by defining the market, the strategies of firms cannot depend only on competing in this delimited market. So, in the context of late capitalization, politics does matter in the constitution of markets and the bourgeoisie’s strategy.<sup>57</sup> Buğra mentions two points regarding the relationship between the state and multiactivity firms by using post-1980 Turkey as an example in her study. First, the state plays a crucial role in formulating investment diversification strategies for firms in Turkey. Second, even this seemingly independent act by the state is itself determined by the role of these firms in the economy. In that sense, state policies affect the growth of firms by determining investment areas, and investments are

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<sup>55</sup> Öztürk, *Türkiye’de Büyük Sermaye Grupları*, p. 16.

<sup>56</sup> Buğra, *State and Business*, p. 173.

<sup>57</sup> *Ibid.*, p. 172.

mainly made in terms of state managers' suggestions instead of market signals.<sup>58</sup> For the period of this thesis, this has explanatory power.

Another key factor that affects the structures and strategies of multiactivity firms in Turkey is related to the character of state intervention in the economy and its randomness. Frequent policy changes and arbitrary interventions into economic parameters create rent-seeking and risk-generating areas. The unrelated diversification of the activities of the firms could be a reply to this policy changes. A flexible transition between sectors is in the case of spreading risks among many sectors.<sup>59</sup>

Holding structures are also seen in advanced capitalist countries (such as General Electric, 3M and Berkshire Hathaway)<sup>60</sup> and, advanced capitalist, but late industrialized countries like in Japan and Germany. But apart from other late industrialized countries, business in Japan and Germany shows characteristics of the finance capital in advanced capitalist countries in which the coordination among the firms of the group is done by the group's bank.<sup>61</sup>

Buğra states that while examining the nature of state-bourgeoisie relations in Turkey, one must consider the historical legacy of the relations which comprises general distrust of state managers in the private sector. This could be a factor in the selective policies that favor a small number of entrepreneurs who are seen trusted individuals. According to her, the structure and characteristics of Turkish conglomerates are determined by the socio-cultural environment.<sup>62</sup> The socio-

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<sup>58</sup> Ibid., p. 187.

<sup>59</sup> Ibid., pp. 188-189.

<sup>60</sup> Adrian Wooldridge, "Return of the Giants," *The Economist*, 21 November 2012. <http://www.economist.com/news/21566291-conglomerates-out-fashion-1980s-are-roaring-back-argues-adrian-wooldridge-return>

<sup>61</sup> Buğra, *State and Business*, p. 174.

<sup>62</sup> Ibid., pp. 187-188, 178-179.

cultural environment and instability in policy making certainly affect the constitution of finance capital. Nevertheless, Özgür Öztürk challenges this consideration. On the assumption that unrelated diversification is seen in almost all late capitalized countries, he claims that we must also look at the other factors besides socio-cultural environment and political uncertainty.<sup>63</sup> If there is a common situation seen in late capitalized countries regarding capital groups, the progress must also be examined by regarding the structural features of capitalism.

Why do conglomerates establish a group bank? In Turkey, accessing credit sources has always been important under the circumstances of the underdeveloped, or according to recent parlance, inefficient,<sup>64</sup> nature of Turkish capital markets and family firm-character of big business. The state has always been seen as the main source for credits, but also having a bank has been thought of as advantageous for accessing credits and channeling these resources to where they are needed in the conglomerate. However, Buğra stresses that it is important not to overrate the holding-bank relationship by stressing two aspects. First of all, holdings in Turkey are not organized around rooted and strong banks, like in the Japanese *keiratsu* examples. One exception perhaps, is Sabancı Holding, organized largely around its flagship bank, Akbank.<sup>65</sup> Before 1980, holding banking was not popular among multiactivity firms. Second, having a group bank does not mean loosening ties with the state in terms of financial dependence. According to Buğra, it may also increase the dependence, because group banks facilitate the use of state credits by eliminating

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<sup>63</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 19.

<sup>64</sup> Liberal Business magazines too, see the inefficiency of markets as the major reason behind the development of conglomerates in developing countries. See: "Monsters Still, but Prettier," *The Economist*, 3 January 2002. <http://www.economist.com/node/922645>

<sup>65</sup> "Too Big to Fail, but in a Good Way," *The Economist*, 1 February 2014. <http://www.economist.com/news/business/21595463-two-huge-family-firms-koc-and-sabanci-should-weather-turkeys-crisis-too-big-fail>

the other commercial banks in the distribution of credits.<sup>66</sup> Therefore, even under the conditions that the bourgeoisie constitutes itself as finance capital in a given social formation; the state maintains its essential role in defining class relations. This must be taken into consideration in the analysis of the structure of finance capital and the whole political economic process.

As discussed above, holding companies integrate money capital, productive capital and commercial capital. Since the socialization of production and capital is limited, and since capitalism is not the dominant mode of production in the early stages of late capitalized countries, the dominance of finance capital cannot take place. Establishing holding companies is popular in such cases. In the holding structure, money capital is needed for the productive capital that is mainly fed by state incentives to reproduce and expand itself into diverse areas. In Turkey, after the Second World War, there was enough capital for bourgeois fractions to establish such holding companies. This rush into the financial arena enabled rapid expansion and funding for new investments.

### Sources and Methodology

A criticism may be brought that this thesis makes too much use of approaches and tools developed and in fashion in the 1970s and 1980's. My response would be that the phenomena analyzed here would simply not lend itself fruitfully to the cultural and other turns that have been historiographically in fashion ever since. In the case analyzed here, one must simply opt for an approach where the socio-politics is brought back in. This is not to say culture is unimportant as a tool of analysis. In

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<sup>66</sup> Buğra, *State and Business*, pp. 199, 202.

this thesis, class is defined through practice in the political realm, not by its relationship to the means of production. Also, the fall of Republican People's Party and the rise of the Democrat Party are redefined as the outcome of conflicts within the ruling bloc. Political definition of classes and fractions enables to transform the crisis of post-war period into a quadrille in which agrarians, industrialists, petty-bourgeoisie and other groups advance, retreat, combine and change partners with increasingly bewildering frequency. The actors here are not human beings for the most part but abstractions such as labor, capital, industry and so on. Since there is a considerable level of abstraction, this thesis should be regarded more as a work of political science inspired nevertheless by history. Yet, putting the economic policy in the center of attention and attempting to show the effects of economic crisis during the early Republican period and post-war period on policies and tendencies of social classes, this thesis also aims to present a more structural approach to the works of history.

This study in the simplest term composes of three main parts: theory, historical background, and the specific subject. Therefore, three clusters of sources are used here. The study will be following a historical-social narrative to examine the rise of private sector banking and the bourgeoisie, with the already explained theoretical underpinning lingering in the background. The history of the financial sector in Turkey will thus form a part of the socio-political and economic history of Turkey. It will be followed by the main narrative to contextualize the subject.

The "second group of literature" discussed under the historiography section comprises the main sources of the theoretical framework. In addition to this, a Marxian understanding of state theory literature is used to back up the state's role in socio-political and economic changes.

Sources used to describe the historical background divides into two sections: The first group comprises sources on the socio-political and economic history of Turkey. The sources used here are selected to be consistent with the political economy perspective of this study. The second group consists of sources on the Democrat Party (DP). To examine the DP, the publications of the DP officials and the DP itself are used as primary sources combined with secondary sources written on the DP.

The shortage of sources on the history of banking before the 1960s is a common point generally stressed in the literature. Before the establishment of the Turkish Union of Banks in 1958, there were not many banks keeping proper records that are still be accessible today. Even some studies focusing on the 1970s and its aftermath stress the same problem.<sup>67</sup> This, in fact, is the main reason for the narrow range of literature regarding Turkish banking before the 1960s. There is not even a single source solely focusing on banking in the post-war era before the 1960s. Due to the lack of adequate individual bank records, the sources on their institutional history mainly concentrates after 1960s and 1970s, except for the works on İş Bankası.

When newspapers of the period are observed, signs of the competition between the banks became salient. Since there was no television broadcasting in Turkey, newspapers were the number one source along with radios to access the masses. Offering lucrative incentives was an important tool for the banks to attract deposits, as can be found in advertisements in the period newspapers. But, to examine the rise of private sector banking at length, technical information is needed. Thus, the Central Bank monthly and annual reports have been the main sources for Turkish banking before the 1960s, especially due to the lack of proper individual

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<sup>67</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*.

archives of the banks. The data used here is compiled from Central Bank reports and the first group of literature. The latter has already been mentioned as a practical source of the financial data belonging the period. Additionally, economic surveys by the British Board of Trade are used to back up these economic and financial data.

### Organization of the Chapters

Besides the introduction and conclusion, the study comprises three chapters. The first chapter is the introduction. The second chapter relates to the historical background of Turkish banking and the political economy of Turkey in the early Republican period. This chapter looks at how socio-political power relations and the finance sector developed in different accumulation regimes.

The third chapter focuses on the transition of Turkey after the Second World War, and on the path to the DP rule. After the war ended, Turkey experienced significant socio-political and economic changes. The transition to a multiparty system was one of the remarkable changes in the political area. In this manner, this chapter also examines the rise of the DP and policies intended for the burgeoning of private sector banking along with the rise of industrial bourgeoisie.

The fourth chapter focuses on the rise of private sector banking and the bourgeoisie. This chapter looks at the monetary and fiscal politics of the post-war period combined with the developments in the banking sector, and aims to understand the relationship between private sector banking and capital groups. The chapter concludes with the new Banking Law implemented in 1958. The fifth chapter summarizes the findings in the conclusion of the study.

## CHAPTER II

### POLITICAL ECONOMY AND BANKING IN THE EARLY REPUBLICAN ERA

The economic policy dynamics of the early Republican era characterized the long path from the organization of the bourgeoisie to finance capital in Turkey. In this chapter, the relation between the state and the bourgeoisie will be examined and the main developments in the finance sector in terms of the economy policies of the state will be highlighted.

The economic policies in the early Republican period can be periodized into a liberal era followed by statism and war time policies. Specifically when looking at the liberal era, according to Korkut Boratav, two cornerstones of economic growth between 1923 and 1929 were the Lausanne Treaty, which prevented the government from taking restrictive actions against foreign capital, and the Great Depression, which led to the introduction of statist policies.<sup>68</sup>

#### Political Economy and Finance in the 1920s

Agricultural dynamism, which sums up the economy in the 1920s, was pivotal for the economic reconstruction between 1923 and 1929. Also, industry showed notable growth with an average annual growth rate of 10.2 percent. But Boratav stresses that industry was not a vanguard sector for the national income in the 1920s, since it constituted only 11 percent of the gross national product average for the period.<sup>69</sup>

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<sup>68</sup> Korkut Boratav, *Türkiye İktisat Tarihi 1908-2007* (Ankara: İmge, 2009), p. 43.

<sup>69</sup> *Ibid.*, p. 51.

In considering the economic policies of the newly founded Republic, it should be noted that the national economy politics characterized the early Republican era, which was a legacy of the CUP (Committee of Union and Progress,) first an Ottoman nationalist modernization movement, then a political party, and finally the ruling organization of the second Constitutional and the World War I periods.<sup>70</sup> The İzmir Economy Congress of 1923 reified the new provisions for national economy politics to bring about the emergence of a national bourgeoisie. The congress was dominated by merchants and landowners. The proceedings of the event reflected in the main lines of the national economy vision.<sup>71</sup>

The important point about the İzmir Economy Congress for the development of the finance sector, emphasized over and over as a main problem, was the lack of enough facilities for credits and money capital. The establishment of a main commercial bank was strongly advocated by the commerce sector, backed by agriculture and industry groups.<sup>72</sup>

The first actions in the banking sector after the Republic was founded were in harmony with the main lines of the decisions taken at the İzmir Economy Congress. Simply, the model was to establish a big bank for every main sector. Thus, *İş Bankası* was founded in 1924 for trade and commerce; *Sanayi ve Maadin Bankası* (Industry and Mines Bank) was founded in 1925 for industry and mining; and in 1926, *Emlak ve Eytam Bankası* (Land and Orphan Bank) representing real estate

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<sup>70</sup> For more on the CUP's economic policies see: Zafer Toprak, *Milli İktisat-Milli Burjuvazi* (İstanbul: Tarih Vakfı, 1995).

<sup>71</sup> Ibid., p. 46.

<sup>72</sup> Özgür Öztürk, *Türkiye'de Büyük Sermaye Grupları: Finans Kapitalin Oluşumu ve Gelişimi* (İstanbul: SAV, 2011), p. 49.

development was founded. In addition, the statue of *Ziraat Bankası* (Agricultural Bank) was changed in order to provide more credits for the agricultural sector.<sup>73</sup>

In terms of exploring the financial dimensions and connections of the newly emerging bourgeoisie, a close look at İş Bankası is imperative, especially considering that it was the first finance capital organization in the 1920s, and specifically the 1930s. Two fundamental characteristics of İş Bankası were its privileged status to access money capital and its efficient allocation of the latter compared to public banks. Furthermore, there was a division of labor in the banking system between İş Bankası and the public banks.<sup>74</sup> Ziraat Bankası specialized in agricultural credits, Emlak ve Eytam Bankası in residential credits, and Sanayi ve Maadin Bankası dealt with industrial credits for the public sector.

Due to the lack of strong industrialist initiatives, Sanayi ve Maadin Bankası seems to have had an important mission. Its function was to encourage industrial investments and circulate the profits while undertaking risks.<sup>75</sup> Commercial banking, on the other hand, was more profitable, and İş Bankası was the leading bank in this area. Specialized banks granted long-term credits, while commercial banks led by İş Bankası generally issued short-term credits.<sup>76</sup>

The crucial point regarding the establishment of İş Bankası was its coherence with the liberal economy policies and capital accumulation strategy as stipulated in the İzmir Economy Congress. Apart from carrying out its main activities in commerce, the bank quickly spread to the industrial sector by making investments

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<sup>73</sup> Ibid.

<sup>74</sup> İş Bankası is considered as a semi-state bank because of the state managers' involvement in capital and management but is actually the first and still the biggest private bank of Turkey.

<sup>75</sup> Stefanos Yerasimos, *Az Gelişmişlik Sürecinde Türkiye, c.3: I. Dünya Savaşından 1971'e* (İstanbul: Gözlem, 1976), p. 1264.

<sup>76</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 50; Uygur Kocabaşoğlu, et. al., *Türkiye İş Bankası Tarihi* (İstanbul: İş Bankası Kültür Yayınları, 2001), p. 284.

there.<sup>77</sup> It is possible to say that all these banks were mediators between the state and emerging/existing bourgeoisie fractions. After the proclamation of the Republic, newly founded banks as semi-public establishments became the main mechanism for transferring the assets of the state to private firms.<sup>78</sup>

Twenty-seven national banks were established in the early Republican period of 1924-1929. By the end of 1929, 43 national banks were active. Again by 1929, the aggregate number of national and foreign banks was 58.<sup>79</sup> The two years between 1924 and 1926 deserve special mention, because, as expressed above, during this time the big banks for each of the agriculture, commerce, industry and construction sectors were founded.<sup>80</sup>

Another important advancement regarding banking was the merger of İş Bankası with the *İtibar-ı Milli Bankası* (roughly translated as National Trust Bank) in 1927, under the former. Uygur Kocabaşoğlu writes that the aim of the unification was to strengthen İş Bankası by preventing unnecessary competition and decreasing the cost of opening new branches. İş Bankası was chosen as the host for political reasons, because İtibar-ı Milli had been a product of the late Ottoman Empire regime.<sup>81</sup> Absorbing İtibar-ı Milli made İş Bankası one of the biggest banks in Turkey.<sup>82</sup>

The new regime had to tackle two other issue related to official money transactions: to control currency exchange and the amount of emission. A central bank was thus established in 1930. The Central Bank was a stock corporation with 15

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<sup>77</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, pp. 17-18.

<sup>78</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1263.

<sup>79</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 29.

<sup>80</sup> *Ibid.*, p. 31.

<sup>81</sup> *Ibid.*, p. 113.

<sup>82</sup> Y. N. Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri (1923-1960)* (Ankara: Onur, 1978), p. 111.

million liras capital. The shares of the bank were divided to A, B, C and D classes. Class A shares were 15 percent of total capital and owned by government. Class B shares were reserved for national banks and class C shares were reserved for foreign banks and privileged firms. Class D shares were for Turkish business and Turkish natural and legal entities.<sup>83</sup> Y. N. Rozaliyev states that the constitution of the administrative organ of the Central Bank by the representatives of foreign banks and by managers of İş Bankası, Ziraat Bankası, and suchlike persons indicates the importance of the role of the private sector in the operations of the Central Bank.<sup>84</sup>

In terms of the power relations and the hegemony established over social classes, it would be accurate to say that the bureaucratic-administrative mechanisms held the political power given the lack of a strong bourgeoisie and other resistant classes. According to Stefanos Yerasimos, the socio-economic power relations in Turkey between 1923 and 1945 constitute a triangular regime between the bureaucracy, the bourgeoisie, and local notables.<sup>85</sup> It must be pointed out that the peasantry was an important support on which the hegemony of the bureaucracy-bourgeoisie relied as the working class was weak. This triangle, in other words, must be appreciated as a power relation, a hegemonic bloc in which the bureaucracy held the power by providing the means of capital accumulation to the urban bourgeoisie and ways to increase the landholdings of landowners. There were direct interest linkages between the bureaucracy, bourgeoisie, and landowners. Provincial notables

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<sup>83</sup> TCMB, *Dünden Bugüne Türkiye Cumhuriyet Merkez Bankası* (Ankara: TCMB, 2008), pp. 4-5; İlhan Tekeli, Selim İlkin, "TC Merkez Bankası," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1983): 146-154, p. 150.

<sup>84</sup> *Ibid.*, pp. 74-75.

<sup>85</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1272.

were the local junctions of the interests of the bureaucracy and the bourgeoisie met for further power and capital accumulation.<sup>86</sup>

In the 1920s industrialization in Turkey was limited; that is to say, capital accumulation was insufficient for the bourgeoisie to call itself a powerful industrial bourgeoisie. In concordance with the capital accumulation strategy and as a part of national economy politics, the Law for the Encouragement of Industry (*Teşvik-i Sanayi Kanunu*) was passed in 1927 in order to subsidize industrialization attempts and to facilitate capital accumulation in the private sector.<sup>87</sup> This law envisaged tariff exemptions, provided lands at no cost or with long-term repayments, offered discounts for purchasing machines, subsidies for production to entrepreneurs and made their products top priority for state purchases.<sup>88</sup> To see the effects of the law, the following numbers give good insight: in 1927, there were 322 industrial establishments, whereas in 1933, there were 1473.<sup>89</sup>

The 1927 law provided clear advantages to industrialists.<sup>90</sup> Although the law protected industrialists and provided a catalyst for industrial investment, it is not possible to argue for an effective industrial bourgeoisie in the 1920s and 1930s. One of the indicators of this, Öztürk notes, was the demand from industrialists for an independent chamber which had been ignored by the 1925 law of chambers of commerce and industry. It remained as such until 1950.<sup>91</sup>

In the 1920s, the dominant fraction of the bourgeoisie was the commercial bourgeoisie. Öztürk notes that the percentage of credits granted between 1924 and 1929 was 14 percent for agriculture, 8 percent for residential and state and 78 percent

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<sup>86</sup> Ibid.

<sup>87</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, pp. 35-36.

<sup>88</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 51.

<sup>89</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1286.

<sup>90</sup> Çağlar Keyder, *Türkiye'de Devlet ve Sınıflar* (İstanbul: İletişim, 2007), p. 132.

<sup>91</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 51.

for non-agricultural sectors. In the non-agricultural credits, the biggest share belonged to commerce; the agricultural credits went to landowners and merchants for the most part. Under these circumstances, the industrialists started complaining about the shortage of credits for industrial investments.<sup>92</sup>

### Statism, the Bourgeoisie, and the Banking System

The 1929 economic crisis was felt deeply in Turkey as in all capitalist countries in the world. The Great Depression was of US origin, but within the capitalist division of labor, whole economies in the capitalist chain were affected seriously. In Turkey, the economic turmoil after the Great Depression revealed the weakness of the bourgeoisie. They were so dependent on foreign markets that they were in danger of losing the economic bases of their activities. The existing relations with political power were not enough to make the structural transformation.<sup>93</sup> On the other hand, the crisis and the difficulties that the commercial bourgeoisie faced led to new economic measures and policies. In the end, a new regime that internalized bureaucratic reform was established.<sup>94</sup>

Statism in Turkey after the Great Depression was a logical continuation of the national economy and national bourgeoisie creation politics. It was not a policy in which the economy was controlled by bureaucrats who disfavored the private sector. It was not anticapitalist. On the contrary, statism emerged as a convenient method for capitalist development given the existing conditions.<sup>95</sup> Industrialization by statism

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<sup>92</sup> Ibid., p. 50.

<sup>93</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 123.

<sup>94</sup> Ibid., p. 124.

<sup>95</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 54.

took place under the conditions of an economic depression when trade was no longer profitable.<sup>96</sup>

Boratav notes that statism was a part of the capitalist development of Turkey. When compared to economic stagnation, the dynamism of statist development was in favor of the short and long-term interests of the bourgeoisie and it provided a more feasible environment for the growth of capitalism in a structural sense. First, price relations advantageous to industry were also valid for the private sector. Arguably the most important was the Labor Law of 1936 that enabled the bourgeoisie to employ workers at low wages.<sup>97</sup> Second, public investments created a favorable climate for commerce and industry fractions. Boratav emphasizes that earnings from state tenders constituted income sources for big capital groups for decades to come.<sup>98</sup> The facilities established and policies implemented in this period directly or indirectly provided important advantages for the private sector in concordance with statism. For example, a clear advantage provided by statism for the private sector was creating external economies such as roads and electricity tenders for near industrial plants.

The burden of industrialization through statism fell on the peasants and workers. In addition, the exporting commercial bourgeoisie was affected negatively compared to the 1920s. On the other hand, those among the bourgeoisie with close business relations with the state, and the industrial bourgeoisie, both relatively improved their condition. The bureaucracy maintained its hegemonic position.<sup>99</sup> However, the industrial bourgeoisie was still not the dominant class fraction, the

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<sup>96</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1292.

<sup>97</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 57.

<sup>98</sup> Boratav, *Türkiye İktisat Tarihi*, p. 65.

<sup>99</sup> Ibid.

alliance of the commercial bourgeoisie and big landowners continued to remain strong.<sup>100</sup>

The statist economy policies created deep concerns for entrepreneurs. The closed economy conditions of the international capitalist market damaged the position of the bourgeoisie in the capitalist division of labor in international trade. To soothe the discontent of business, Celal Bayar, the general manager of İş Bankası, was appointed as minister of finance.<sup>101</sup> With this appointment, the disputes between the statist bureaucracy and liberal bourgeoisie fractions in the Republican People's Party (RPP) became evident.<sup>102</sup> Cemil Koçak describes that the main conflict occurred between the fractions before Bayar became finance minister, when he offered to create a paper industry with the affiliation of İş Bankası to the Ministry of Finance. The bureaucratic fraction of the power bloc wanted to keep paper production as a public service. The disputes were solved temporarily in favor of the bourgeoisie when Bayar was appointed minister, so that the bourgeoisie around İş Bankası dominated the statist bureaucratic fractions.<sup>103</sup> The appointment of Celal Bayar to the Ministry of Finance under the conditions of statist policies was a result of the growth of İş Bankası, which led the big bourgeoisie.<sup>104</sup>

Immediate effects of Bayar's appointment showed in the abolition of some policies that had dissatisfied the private sector. These included the removal of tariff exemptions, the discontinuance of the requirement of state approval when establishing new factories, and splitting of the management and finance functions of Sanayi ve Maadin Bankası by establishing the State Industry Office (*Devlet Sanayi*

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<sup>100</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 58.

<sup>101</sup> Boratav, *Türkiye İktisat Tarihi*, p. 68.

<sup>102</sup> Cemil Koçak, *Türkiye'de Milli Şef Dönemi: 1938-1945, v. 1* (İstanbul: İletişim, 2003), p. 35.

<sup>103</sup> *Ibid.*, pp. 35-36.

<sup>104</sup> Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri*, p. 112.

*Ofisi*) and State Industrial Credits Bank (*Devlet Sanayi Kredi Bankası*) against the intertwining of industry and banking in 1932.

Sümerbank was founded in 1933 and combined the functions of the State Industry Office and the State Industrial Credits Bank once again after they were considered inefficient. According to Yerasimos, Minister of Finance Bayar had started the struggle between the bourgeoisie and the bureaucracy. The abolition of the State Industry Office and the State Industrial Credits Bank was a clear statement of the struggle where the bourgeoisie thought these establishments did not serve the growth of national industry, but hindered it.<sup>105</sup> Sümerbank, in the public sector, and İş Bankası, in the private sector, were the pioneers of finance capital in the statist era where capitalist industry was growing slowly.<sup>106</sup> The business with intentions to invest in industry demanded easy access to long-term credit, whereas the banks usually preferred the less risky trade sector and short-term credits. With the inculcations of the government, İş Bankası shifted its credits from merchants in dire straits to the favored industrialists.<sup>107</sup> İş Bankası also showed an active effort to establish new banks, business corporations and insurance companies. In that sense, the government forced the merchants, who were controlled by the big banks, for association.<sup>108</sup>

As discussed in the first chapter, Öztürk claims that the engagement of bank capital, industrial capital and commerce capital was the result of late capitalization. In the context of late capitalization, the transition to industrial capitalist production did not follow the historical path in Western Europe where handicrafts were surpassed by manufacturing and manufacturing by machine production. Under these

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<sup>105</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1302.

<sup>106</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 55.

<sup>107</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 132.

<sup>108</sup> Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri*, p. 118.

conditions, Öztürk writes that it is compulsory that capitalist production begin directly with machine production and factories. However, this process needs large amounts of money capital. This was not possible during the Ottoman Empire, when capital accumulation was not sufficient to establish factories to compete with European manufactures. Thus, in the international capitalist division of labor, industrialization was not needed for the Ottoman State where commercial bourgeoisie was mediating capital relations.

After the Great Depression, the existing division of labor could no longer continue due to the terms of shrinkage in international trade. Under these circumstances, import substitution was inevitable, at least for consumer products. The state's role was to substitute the market in order to regulate aggregate social capital. Here, social capital refers the aggregate social relationships and networks that are determined by structural constraints and reproduced by individual and institutional actors in a given society to bond economic and cultural codes.<sup>109</sup> Under statism, it was necessary that the state form itself as finance capital to control social capital. Hence, the rise of Sümerbank and İş Bankası as finance capital symbolized state policy for a certain period.<sup>110</sup>

Boratav states that, after its foundation, İş Bankası offered a special venue for the gathering of capital owners and political actors after its foundation days.<sup>111</sup> It functioned as a platform for industrialists to negotiate with the bureaucracy. There were bureaucrats and parliamentarians in all of the boards of the bank's affiliates.<sup>112</sup> The statist fractions of bureaucracy quarreled with big bourgeoisie in the years of

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<sup>109</sup> Pierre Bourdieu, "The Forms of Capital," in *Readings in Economic Sociology*, ed. Nicole Woolsey Biggart (Massachusetts: Blackwell Publishers, 2002): 280-291.

<sup>110</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 56.

<sup>111</sup> Boratav, *Türkiye İktisat Tarihi*, p. 41.

<sup>112</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 136.

statism. They claimed that the bourgeoisie had grouped together around İş Bankası and attempted to get involved in politics for their economic interests, causing the erosion of public interest. In contrast, the capital groups and landowners argued that the bureaucratic mechanisms were restraining the investments of the bank. Koçak writes that the degree of struggles over economy between the bureaucracy and bourgeoisie changed from time to time, but they were never completely solved during the period.<sup>113</sup>

İş Bankası to a large extent acted as the first conglomerate of Turkey and in that regard may have acted as a role model for future private conglomerates, some of which had flagship banks.

There were 31 parliamentarians on the board of directors of the existing 38 national banks. İş Bankası was called the "little parliament," since there were 13 representatives on its board. Yerasimos notes that there was nevertheless an opposition in the base of the single party apparatus against the relatively big sections of the bourgeoisie, since the former consisted of petty bourgeoisie and the notables of provincial towns. This grassroots opposition led the struggle against the big bourgeoisie by integration of party and state to blockade the invasion of the party by the bourgeoisie, and consolidate the power that the bureaucracy held. Therefore, it became impossible for the liberal big bourgeoisie to come to power by internal mechanisms of the single-party power, and this led to the organization of political opposition in the parliament.<sup>114</sup>

The finance sector in the statist era showed gradual progress, parallel to the capitalist development and regulation in Turkey. Rozaliyev notes that decisions were taken in order to assist the growth of national bank capital during the early

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<sup>113</sup> Koçak, *Türkiye'de Milli Şef Dönemi*, v. 1, p. 37.

<sup>114</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1313.

Republican era. In 1933, laws for the protection of credits and accounts were accepted. Also, there was a third law which improved the record keeping on banks by gathering and overseeing information such as the founding date, the amount of capital and reserves that banks had.<sup>115</sup>

In the early Republican period, the first regulation regarding banking was the 1933 Protection of Accounts Law (*Mevduatı Koruma Kanunu*). Until then, banks had been founded under the provisions of the Turkish Commerce Law like other corporations. Kocabaşoğlu sums up the period regarding banking in four points: First, banks operated without prescribed standard rules. Second, there was no registration or licensing institution to control the establishment of banks. It was easy to establish a bank without sticking to preset accounting or administrative norms. Kocabaşoğlu claims that this was also the reason for the existence of many local banks. Third, the banks showed “universal bank” characteristics even from the beginning. In other words, they were active in all the fields of financial markets such as commercial, consumer and investment banking, and they were able to participate in firms directly. Fourth, the state was unable and had insufficient resources to acquire accurate information while financing commercial and industrial activities.<sup>116</sup> With the proclamation of the Banking Law in 1936, those deficiencies were gradually fixed, and banking operations began to take place under defined regulations.<sup>117</sup>

Rozaliyev stresses the importance of the Banking Law of 1936. Roughly, the law aimed to accelerate the process of bank capital concentration and limit the emergence of small banks where paid-in capital was low. The main purpose was to

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<sup>115</sup> Rozaliyev, *Türkiye’de Kapitalizmin Gelişme Özellikleri*, p. 103.

<sup>116</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, pp. 165-166.

<sup>117</sup> *Ibid.*, p. 267.

expedite the association of joint stock corporations. Also, the law prescribed the registration of all foreign banks as they had to obtain permission from the Council of Ministers to be active and open new branches.<sup>118</sup> In addition, there were provisions in the law to regulate all banking actions by the state. One example was the condition of credits. Private banks were restricted in granting credits while the state banks were not. Later on, the law was extended in order to provide privileges for big capital. Rozaliyev writes that the government directives helped the growth of concentration and the centralization of national bank capital before the Second World War.<sup>119</sup> The private sector was not in a competitive relationship with the state investments; on the contrary, they complemented each other under the framework of statism.<sup>120</sup>

The concentration of bank capital increased after the Great Depression. Between 1933 and 1936, the share of total accounts controlled by Ziraat Bankası and İş Bankası was between 61.3 percent and 72.3 percent.<sup>121</sup> Rozaliyev notes that the concentration of industrial capital showed parallel growth to the concentration of bank capital. In 1932, the number of protected establishments by the 1927 law was 1473; in 1941, it was 1052, but the quality of the means of production and the market value of the products had risen by four times.<sup>122</sup>

Öztürk maintains that the number and diversity of the affiliates of İş Bankası shows its central place in the process of capital accumulation. Before World War II, there emerged separate large stock corporations and associations with the help of the government, İş Bankası, and its affiliates being the most important. Most of the industrial plants and other enterprises in the 1930s were affiliated with İş Bankası

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<sup>118</sup> Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri*, p. 104.

<sup>119</sup> Ibid., pp. 105-106.

<sup>120</sup> Boratav, *Türkiye İktisat Tarihi*, p. 74.

<sup>121</sup> Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri*, p. 107.

<sup>122</sup> Ibid., p. 107. Yerasimos gives the number of industrial establishments as 1473 for 1933, see: Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, pp. 1286.

and nearly the half of the banking sector's investments was made by the bank. İş Bankası also influenced heavily the operations of many banks and insurance companies towards the beginning of the Second World War.<sup>123</sup> Banks were earning significant profits by commercial intermediation and usury (interest income) under the conditions of socio-economic changes. Also, with the strengthening of banks, the concentrated money capital in the banks headed towards actual production and the establishment of factory.<sup>124</sup> Thus İş Bankası, as a finance capital, was also controlling a considerable portion of the social capital, the aggregate of social relationships in Turkish society under statism.<sup>125</sup>

## Economy and Hegemony during World War II

Beside the exceptional conditions caused by the war itself, the economy politics of the Second World War era was also a continuation of national economy politics in terms of capital accumulation. Economy policies were favoring the national bourgeoisie, however the RPP lost its hegemonic power among social classes as a consequence of war-time politics.

When the RPP realized the weakening of its support, it was forced to liberalize the political and economic arenas. The cause of the declining popularity was two-fold: The first was the dissatisfaction of the masses during the single party period.<sup>126</sup> The widening gap between the subordinate classes and political power became evident after World War II. To preserve the hegemonic structure, and to continue to be backed by the bourgeois classes, the bureaucratic regime put all

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<sup>123</sup> Ibid., p. 120.

<sup>124</sup> Ibid., p. 122.

<sup>125</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 59.

<sup>126</sup> Eroğul, "Çok Partili Düzenin Kuruluşu," pp. 114-5.

economic burden on the masses. However, the war period ended with the bourgeoisie getting richer.<sup>127</sup> Moreover, the state was in a state of emergency and kept a large army mobilized during the war years. The needs of the army were mainly compensated by the peasantry. The maintenance of the army was a significant factor in the decline of production and income in agriculture and industry. The GDP decline between 1938 and 1945 was 35 percent.<sup>128</sup> Demirel writes that the GNP decreased 23 percent in industry and 35 percent in agriculture between 1938 and 1945. Per capita income decreased to 63 percent of 1938 in 1945. The only population segments unaffected were parts of high bureaucracy and a large part of the landed and trading bourgeoisie, causing significant resentment.<sup>129</sup>

The second cause of the RPP's declining popularity was inflation, another economic blow to the masses. The National Protection Law,<sup>130</sup> the law in 1943 on agricultural products, put pressure especially on small producers as they had to sell considerably below market prices despite the high price levels in the latter. Roger Owen and Şevket Pamuk state that the high price mechanism favored the unaffected part of the middle producers and big landowners.<sup>131</sup> Under war conditions, the statist policies and precautions such as balanced budget policy could not be furthered. In this case, the political power decided to print money to finance the economic deficits. However, money printing to finance war time expenditures increased the inflation.<sup>132</sup> Inflation replaced the deflation of the statist era. The redistribution of income caused by inflation provided high profits and rapid capital accumulation for the

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<sup>127</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, pp. 1341-2.

<sup>128</sup> Roger Owen and Şevket Pamuk, *A History of Middle East Economies in the Twentieth Century* (London: I.B. Tauris 1998), p. 24.

<sup>129</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, pp. 46-7.

<sup>130</sup> National Protection Law of 1940 was a state of emergency law that enabled the government to control entire production, trade and employment segments of the economy.

<sup>131</sup> Owen and Pamuk, *A History of Middle East Economies in the Twentieth Century*, p. 25; Cemil Koçak, *Türkiye'de Milli Şef Dönemi: 1938-1945*, c. 2 (İstanbul: İletişim, 2003), p. 540.

<sup>132</sup> *Ibid.*, p. 26.

bourgeoisie.<sup>133</sup> There emerged a new group of merchants, especially in the provinces, linked with state managers.<sup>134</sup>

Furthermore, Owen and Pamuk write that the shortages during the war caused a proliferation of black-markets, stockpiling and profiteering.<sup>135</sup> Statist policies and monopoly of the state on foreign trade were backed by profiteering and bribery. Besides shortages, high prices, low wages and black-markets were the other characteristics of the war economy.<sup>136</sup> As a result of the war years, the masses became impoverished, while profiteering groups got richer.<sup>137</sup> These circumstances facilitated capital accumulation mainly for the merchant capital.

Moreover, there were political and cultural conflicts. The modernization project and anti-democratic rule of the bureaucratic regime disturbed broad groups of in society.<sup>138</sup>

Apart from its declining popularity, the second determinant that forced the RPP to opt for liberalization was the pressure from the upper classes.<sup>139</sup> On the one hand, the conditions of the Second World War forced the state to take rigid measures in the economy, on the other hand, the state provided, through certain compromises, new opportunities to the private sector, which consequently reached a certain level of development.<sup>140</sup> Despite war conditions, the state guaranteed the profit rate of the private sector and made foreign currency procurement easier for business firms. The rights of workers on the other hand, were restrained heavily. The state also increased

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<sup>133</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 134.

<sup>134</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 60.

<sup>135</sup> Owen and Pamuk, *A History of Middle East Economies in the Twentieth Century*, p. 26.

<sup>136</sup> Keyder, "Türkiye Demokrasisinin Ekonomi Politikası," p. 51.

<sup>137</sup> Ibid.

<sup>138</sup> Eroğul, "Çok Partili Düzenin Kuruluşu," p. 114-5.

<sup>139</sup> Ibid., p. 114.

<sup>140</sup> Özlem Özgür, *100 Soruda Türkiye'de Kapitalizmin Gelişmesi* (İstanbul: Gerçek, 1975), p. 111.

the income of the big farmers by buying large amounts of products and animals for the national defense needs.<sup>141</sup>

Despite the fact that economic corruption during the war years had accelerated the capital accumulation process, radical measures of the regime such as the Wealth Tax of 1942 and the Land Reform of 1945 had the potential to hurt the interests of the bourgeoisie. In the case of Wealth Tax, which required a certain ratio in cash of a person's wealth, these fears of the bourgeoisie didn't come true. Keyder states the Wealth Tax, in appearance, aimed at taxing the profiteers.<sup>142</sup> It was indeed the most rigid measure on the bourgeoisie, but in practice it was almost exclusively implemented on ethnic minority groups. It was aimed first and foremost to appropriate capital from the non-Muslim bourgeoisie and to transfer it to the Turkish Muslim bourgeoisie.<sup>143</sup> As Owen and Pamuk point out, 70 percent of the revenues were collected from İstanbul with non-Muslims funding the 65 percent of this sum. During the law's execution, real estate sales of non-Muslims became an important factor in the rise of the new Turkish business and capital class.<sup>144</sup> Desperately in need of cash to pay the tax, non-Muslims had to sell their estates to the Turkish Muslim bourgeoisie. The circulation of properties was a kind of "accumulation by dispossession" and helped the capital accumulation process of the "Turkish" business. According to Boratav, the Wealth Tax created a suitable environment for big capital accumulation for the growing bourgeoisie who took over the assets of the non-Muslim bourgeoisie.<sup>145</sup>

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<sup>141</sup> Ibid., pp.111-2.

<sup>142</sup> Keyder, "Türkiye Demokrasisinin Ekonomi Politigi," p .51.

<sup>143</sup> Ibid.

<sup>144</sup> Owen and Pamuk, *A History of Middle East Economies in the Twentieth Century*, p. 26; Rozaliyev states the tax rates were between 50 percent and 70 percent. Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri*, p. 189.

<sup>145</sup> Ibid., p. 88.

But even as it worked in favor of the interests of the Turkish capital class, the scope of the state power in making and breaking classes, the violation of civil legitimacy along with rights to property, frightened the bourgeoisie. The Wealth Tax became an important factor in the dismantling of the coalition between the bureaucracy and bourgeoisie.<sup>146</sup>

Arguably, the major breakpoint in the bureaucracy-bourgeoisie relations was the draft of Land Reform. It was one of the few socio-economic attempts by the RPP to recover the support of the masses. Although the commission in parliament emasculated the draft,<sup>147</sup> there grew a massive opposition against it from big landowners in the assembly.<sup>148</sup> The law was an important factor in the foundation of the DP.<sup>149</sup> The indirect consequence of the Land Law was the crystallization of the opposition. The hegemonic rule of the single party depended on the alliance of the military-civil bureaucracy, intellectuals, middle classes and the landowners in Anatolia. The state's rigid measures during the Second World War already had weakened this alliance. Now the land reform would weaken the political and economic power of the landowners against the state. Feroz Ahmad argues that this was the main point of the opposition against the Land Law.<sup>150</sup>

The bill passed in the parliament thanks to a personal intervention by president İnönü, but it was considered as the last nail in the coffin to the relations between big landowners and political power. Undoubtedly it influenced the big capital fractions in the power bloc to expand the opposing front against the

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<sup>146</sup> Keyder, "Türkiye Demokrasisinin Ekonomi Politikası," p. 51.

<sup>147</sup> Akın, *Çok Partili Hayata Geçiş*, p. 69.

<sup>148</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1345.

<sup>149</sup> Erdoğan Teziç, *100 Soruda Siyasi Partiler* (İstanbul: Gerçek, 1976), p. 255.

<sup>150</sup> Ahmad, *Demokrasi Sürecinde Türkiye*, p. 28.

bureaucratic regime.<sup>151</sup> Liberalization in concordance with the international capitalist division of labor would further erode the hegemony of the bureaucracy fractions.<sup>152</sup>

The alliance between the urban bourgeoisie and landowners materialized easily with the economic results of the Second World War, and growing grievances against the bureaucratic power. When the authoritarianism of the existing political power spread its reach under the war conditions to retain its hegemony, the opposition gradually grew. Therefore Yerasimos is right when he states that the bourgeoisie congregated around İş Bankası, and established a broad base for their hegemony project in order to install a liberal economy with the help of foreign capital.<sup>153</sup>

To conclude, this chapter established how the banking of the early Republican era was shaped by economic shifts in socio-political relations. The characteristics of banking in the early Republican era was the dominance of public banks. The only exception was İş Bankası. İş Bankası was the first national and private bank to be founded after the republic was proclaimed. The bank's close relations with the state managers provided a privileged status to the bank. With its investments and affiliates in various sectors, İş Bankası was the first finance capital organization and acted as a holding company. The bourgeoisie gathered around İş Bankası benefited from the privileged status of the bank and began to gain power.

Already before the Second World War, there were signs that the hegemony project and closed economy conditions stipulated by the bureaucracy and the RPP were no longer in the interests of the bourgeoisie. The previously more easily accommodated bourgeoisie became ever harder to handle throughout the War, as the

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<sup>151</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1345.

<sup>152</sup> *Ibid.*, p. 1345.

<sup>153</sup> *Ibid.*, pp. 1342-1343.

latter wanted to proceed to a productive capitalist phase as soon as the War ended. The productivity and surplus value decreases caused by bureaucratic oppression alienated the bourgeoisie even further. When the bureaucratic power lost all its bases, its hegemony collapsed after the war ended. This meant that, there would be a reformation of power relations in the socio-political and economic fields. Bourgeois fractions began to think that the only solution for a productive capitalist phase was foreign capital and credits.

## CHAPTER III

### THE SOCIO-ECONOMIC AND POLITICAL TRANSITION IN TURKEY IN THE POST-WAR ERA

Thus far, the political economy of the early Republican period and the status of the capitalist class in relation to state power have been examined to reveal the peculiarities of the capital accumulation process that constituted and directed the progress of the banking and finance sector. In this chapter, the transition in Turkey's post-war period will be discussed. The years between 1945 and 1950 witnessed major political and economic transformations. In the financial area, the most durable and largest privately-owned banks of Turkey were established. As explained in the introduction, this thesis sees finance, along with economics, as a social relation with political consequences. This chapter thus will be reviewing along these lines the political and economic transition in Turkey between 1945 and 1950 in order to explain the transformation of the bourgeoisie.

#### The Transition Years, 1945-1950

After the Second World War ended, Turkey was in transition both in terms of economy and politics. In the economy, a liberalization program was about to be installed instead of the previous statist policies, and in politics, multi-party system would be defining the new regime. New parties would mean new actors. This time, the actor was the capitalist class itself. After many years under hegemonic rule of the bureaucracy, the bourgeoisie finally strengthened enough to find a representative

in the political field. Çağlar Keyder states the years between 1945 and 1950 as the epoch that bourgeois class rule was established fully in Turkish history.<sup>154</sup>

When talking about the post-war period, it would not be advisable to skip developments in the international system and their effects on domestic politics. Political analysis favors the unification of internal and external factors. As the foremost developments in domestic and foreign politics of Turkey regarding the period, Stefanos Yerasimos points out to two main incidents that occurred after 1945 which still have repercussions on today's Turkey: the bourgeoisie came to power directly and, Turkey came under the influence of US imperialism.<sup>155</sup> Sungur Savran makes a similar point, writing about how there was a disengagement in Turkey's political system after World War II. Internally, the power bloc which was a combination of the bourgeoisie and bureaucracy led by the latter, cracked, and the bourgeoisie started to gain importance in the administration of the country. Externally, fascism was defeated and the United Nations established. This in turn provided convenient environment for a multi-party system.<sup>156</sup>

It was clear that there was a clash of interests in domestic politics. Moreover, there was a reciprocal relation between the internal and external factors. The conflict in the power bloc characterized the foreign politics of Turkey and the developments in the international arena determined the execution of policies in a capitalist order. The internal configuration in Turkey and the structuration of the power bloc were decisive. Tanel Demirel highlights the conflict-ridden character of the period.

According to Demirel, the politics of the post-war period, specifically between 1946

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<sup>154</sup> Çağlar Keyder, "Türkiye Demokrasisinin Ekonomi Politikası," in *Geçiş Sürecinde Türkiye*, ed. Irvin Schick and Ahmet Tonak (İstanbul: Belge, 1990): 38-75, p. 55.

<sup>155</sup> Stefanos Yerasimos, *Az Gelişmişlik Sürecinde Türkiye, v.3: I. Dünya Savaşından 1971'e* (İstanbul: Gözlem, 1976), pp. 1339-40.

<sup>156</sup> Sungur Savran, *Türkiye'de Sınıf Mücadeleleri Cilt:1 1908-1980* (İstanbul: Yordam, 2010), p. 160.

and 1950 were characterized by conflict between military-civil bureaucracy who had established the national state and assumed the role of modernizing society on the one hand, and elected new elites who were setting up their hegemony project over the social groups reacting to bureaucratic rule, on the other.<sup>157</sup>

The characteristics of socio-political progress in Turkey was not all that different from the western world. After the war, capitalist expansion and Americanization were the two main features. Turkey began rapid capitalist development and witnessed the disengagement of traditional structures and peasantry in its social base. Externally, the Cold War between the capitalist world and Soviet Union was an important factor in defining the motives and actions of states in internal politics.<sup>158</sup>

For the capitalist class, the statist hegemony project had completed its allotted time. Now, combined with the economic conditions of post-war years, it was an obstacle for its interests. It was common belief that the articulation to the international capitalist world in open economy conditions was vital for productivity and profitability amongst the commercial and newly ascending industrial capitalist class. Foreign capitalists would, however, invest only if required assurances were given for profitable conditions. Defined largely by the conditions of the Cold War, the US aid to Europe and Turkey's quest for a new regime based on liberal economy overlapped in establishing suitable ground for the bourgeoisie to defend the open market. The local and national bourgeoisie would now be the allies of foreign capitalists.<sup>159</sup>

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<sup>157</sup> Tanel Demirel, *Türkiye'nin Uzun 10 Yılı (Demokrat Parti İktidarı ve 27 Mayıs Darbesi)* (İstanbul: Bilgi Üniversitesi Yayınları, 2011), p. 9.

<sup>158</sup> Ibid.

<sup>159</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, pp. 1339-40.

The bourgeoisie needed a political organization to impose its class interests. It seems that the foundation of the Democrat Party (DP) was the answer to the demands of the bourgeoisie. According to Demirel, the most important aspect of the era was the formation of bourgeois opposition as a party in the political stage. The DP, with a discourse on democracy, national will and economic development, expanded its hegemony on all kinds of subordinated groups. The DP was not against the Republic or modernization, but it criticized the ruling bureaucratic elite and its authoritarian tendencies which had led to an authoritarian statist state and a society existing only for the sake of the Republic and modernization.<sup>160</sup> The hegemony project of the DP favored political liberalism and aimed at gaining the support of previously excluded social groups such as religious people. This being said, the RPP too, was moving towards a more liberal stance.

One of the other peculiarities of the 1945-1950 period was the establishment of many opposition parties. Aside from the DP, many political parties were opened in 1946. Cemil Koçak lists 21, all of which were founded after the amendments in the juridical structure for a multiparty system.<sup>161</sup>

Despite the initial polyphonic nature of bourgeois democracy, many of the newly opened political parties were closed down after a short time period. Thus, one must not be deluded by the apparent democratization process. It was still a limited democracy and political freedoms were selectively available to certain groups. These freedoms were meant for the bourgeois resistance and liberal wings whereas leftist and socialist initiatives were strictly followed and their political presence

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<sup>160</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 9.

<sup>161</sup> Cemil Koçak, *İktidarlar ve Demokratlar. Türkiye'de İki Partili Siyasi Sisytemin Kuruluş Yılları (1945-1950)*. (İstanbul: İletişim, 2012), pp. 221-2.

restricted.<sup>162</sup> As Cem Erođul remarks, the new multi-party regime did not comprise any leftist parties. They were all closed down by the RPP government. The administrators of some parties were even arrested. Indeed, the RPP executed a witch hunt against parties, institutions or organs which were related to leftist politics.<sup>163</sup> In Sungur Savran's words, the transition between 1946 and 1950 was based on a rather precise engineering which restricted independent political actions of the working class and featured only "reliable" power groups that could be acceptable alternatives to the existing rule.<sup>164</sup> According to Erođul, democracy as envisaged by the RPP was a liberal, center-right front in the political scene.<sup>165</sup>

As for financial developments, Turkey also witnessed a transition in this area. After the Second World War, the intensification and centralization of national capital gained acceleration. This was first seen in commerce and banking, then in industry.<sup>166</sup> According to Rozaliyev, the most significant determining factor in the growth of Turkish business was the enlargement of state-owned national bank capital.<sup>167</sup>

Like other economic activities after the war years, banking business also flourished. Due to financial expansion, privately owned banking made progress. There were 40 banks in 1945. The number increased to 44 by the end of 1950. Although the increase may seem small, this period saw the creation of the most

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<sup>162</sup> Korkut Boratav, *Türkiye İktisat Tarihi 1908-2007* (Ankara: İmge, 2009), p. 94.

<sup>163</sup> Some newspapers such as Tan and Görüşler were closed by the ruling power as they showed leftist tendencies. Also, the political leadership forced universities to fire leftist academics. Cem Erođul, "Çok Partili Düzenin Kuruluşu: 1945-71," in *Geçiş Sürecinde Türkiye*, ed. Irvin Schick and Ahmet Tonak (İstanbul: Belge, 1990): 112-158, p. 115. Akın claims the Tan incident was to cut the ties of the upcoming party (DP) with the left. Fehmi Akın, *Çok Partili Hayata Geçiş* (Ankara: Cantekin Matbaası, 2008), p. 85.

<sup>164</sup> Sungur Savran, *Türkiye'de Sınıf Mücadeleleri*, p. 162.

<sup>165</sup> Erođul, "Çok Partili Düzenin Kuruluşu," p. 115. In this context, the DP could function within the limitations by the RPP. Akın, *Çok Partili Hayata Geçiş*, p. 276.

<sup>166</sup> Y. N. Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri (1923-1960)* (Ankara: Onur, 1978), p. 205.

<sup>167</sup> Ibid.

durable and largest privately-owned banks of Turkey such as *Yapı Kredi Bankası* (Building and Loan Bank) (1944), *Garanti Bankası* (Warranty Bank) (1946) and Akbank (1948). The number of banks went on increasing at accelerated pace, reaching 62 by the end of 1958, when a new banking law was proclaimed and many banks had to be closed.<sup>168</sup> Öztin Akgüç describes post-war years as the period of the development of private sector banking and bank branches.<sup>169</sup>

Indeed, the other characteristic change in the banking sector was the increase in the number of branches. If the years of the DP governments are included, the number of bank branches increased to 1653 until the new Banking Law proclaimed in 1958, from 444 in 1946.<sup>170</sup> This growth in numbers of the banks and branches can be seen as a manifestation of improving profit margins.<sup>171</sup> It is also a sign of the increasing profitability banks bring to the overall operation of conglomerate groups. No doubt, the DP's provinces-friendly approach in the imposition of its rule had also a role, especially in increasing the branch numbers in the provinces.

A new industrial five year plan was approved in 1945. The plan projected the usual development perspective of the bureaucratic regime, where the state was prioritized in economic development and industrialization. The main characteristic of industrialization policy of the governments during the 1930s and Second World War period was the use of state as the primary tool in capital accumulation.<sup>172</sup> It was, however, clear that the capitalistic character of the new era was incompatible with the plan, therefore the latter was put aside after a short time.<sup>173</sup> Kocabaşoğlu points

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<sup>168</sup> Arslan Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi (1923-1981)* (İstanbul: Der, 1982), p. 19.

<sup>169</sup> Öztin Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler* (Ankara: Tisa, 1975), p. 15.

<sup>170</sup> See table 1 on page 74.

<sup>171</sup> Uygur Kocabaşoğlu, et. al., *Türkiye İş Bankası Tarihi* (İstanbul: İş Bankası Kültür Yayınları, 2001), p. 378.

<sup>172</sup> Yahya Sezai Tezel, *Cumhuriyet Döneminin İktisadi Tarihi* (Ankara: Yurt, 1982), p. 221.

<sup>173</sup> İlhan Tekeli, "II. Dünya Savaşı Sırasında Hazırlanan 'Savaş Sonrası Kalkınma Plan ve Programları'," *Odtü Gelişme Dergisi Özel Sayısı* (1979-1980), pp. 305-24.

out that the plan had demanded 500 million dollars credit from the US Eximbank, already before the Truman Doctrine and Marshall Plan came into play, to finance state projects. The Eximbank however, stated it could only open a credit line of 25 million dollars. Nevertheless, Kocabaşođlu remarks the importance of the request, which signaled that industrialization and economic development orbited around foreign financing.<sup>174</sup>

### The Demise of the Single-Party Regime and the Rise of Bourgeois Opposition

To understand the bourgeoisie's political shift, one must consider the political economy of the Second World War era and post-war international power relations. In the case of Turkey, structural conditions of the economy were convenient for a turn to liberal economic development under patronage of Western capitalism. After 1945, the bourgeoisie took the role of the savior of the masses, who they alleged to be under the "tyranny" of civil servants and the bureaucracy. The shift in political power gradually took place under the limited parliamentary democracy between 1945 and 1950.<sup>175</sup>

Cem Erođul lists three main constituents behind the transition: Internal factors such as economic conditions, the dissatisfaction of the masses, and pressure from the bourgeoisie; external factors, and westernization ideology.<sup>176</sup> In the previous section, the massive impact of domestic politics and the importance of the international context had been emphasized. In what follows, I will first examine the

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<sup>174</sup> Kocabaşođlu, *Türkiye İş Bankası Tarihi*, p. 363.

<sup>175</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, pp. 1340-1.

<sup>176</sup> Erođul, "Çok Partili Düzenin Kuruluşu," p. 114.

westernization ideology before returning to external determinants and domestic causes.

Eroğul claims that the westernization ideology dating back to the Ottoman Empire's Tanzimat period (1839-1876) was one of the factors behind the transition.<sup>177</sup> But westernization constantly had been a part of the modernization project of the bureaucratic administration, both during the Ottoman period and the Republican Period in the nineteenth and twentieth centuries. Apart from the short-lived Progressive Republican Party (*Terakkiperver Cumhuriyet Fırkası*) (1924-1925) and Free Party (*Serbet Fırka*) (1930) experiences, the single party rule did not intend to install a new regime that allowed opposition parties. Therefore, Eroğul's argument on the importance of westernization in the passage to the multiparty regime seems dubious. One must, therefore, also pay attention to contingent developments, not just continuity.

### Turkey between the Capitalist and Communist Worlds

External factors were surely one of the reasons contributing to the regime's transition. Demirel states it is crucial to look at the relations of the state with foreign countries to understand the dynamics of any political movement and power. In some cases, external factors are as determining as internal ones.<sup>178</sup> After the end of the War, the "Soviet threat" was the main topic in Turkey's foreign politics. Actually, Turkey had been a part of the international capitalist system dating back to the Ottoman Empire. A communist state was therefore seen as a potential threat not only to the domestic capitalist relations, but also for the political regime. In the early

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<sup>177</sup> Ibid., pp. 114-5.

<sup>178</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 42.

Republican period, Turkey had had, arguably, amicable relations with the Soviet Union. But, after the War, Soviet demands on the Straits and on eastern Anatolia had caused in the Turkish state fears of loss of sovereignty and territorial integrity. In the Potsdam Conference (17 July - 2 August 1945), Soviet Union had brought up the subject in front of the US and Britain.

At first, the US had not wanted to be involved in the Turkish-Soviet question. But by the end of 1945, the US had started to support Turkey with a sharp shift in its foreign policy. One leg of the new policy called “containment” was to prevent Soviet expansion in every geographical front possible, both physically and ideologically. The US thus started to develop close and friendly ties with the Turkish state against the Soviet Union. The US Department of State informed the Turkish authorities that the Turkish-Soviet conflict was no longer a disagreement between the two countries, but was now a topic that was closely related to world peace and security.<sup>179</sup> Koçak argues that 1946, therefore, should be taken as a milestone in Turkish-American relations.<sup>180</sup>

Actually, backing states against Soviet expansionary politics was a part of hegemonic rule in the capitalist world order. Already in 1941, the Council of Foreign Relations, a think tank with considerable influence, had proclaimed US hegemony for the coming years. The goals of the Council were to establish the economic and military hegemony of the US to provide the needs of US finance and industrial capital, to spread and accelerate the liberalization process in the international capitalist order, to enhance capital circulation and to constitute the infrastructural

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<sup>179</sup> Koçak, *İktidarlar ve Demokratlar*, p. 254.

<sup>180</sup> *Ibid.*, pp. 244-5.

conditions which would lead the way to the capital accumulation process.<sup>181</sup>

Keyder writes that the success of US hegemony in the interstate system after the War depended on periphery countries which adopted and defended the free trade economy and which were ruled by US-allied political governments. According to Keyder, the attempt of the RPP to regain support by liberalization suited the mentioned international context of events.<sup>182</sup> Turkey was already a capitalist, and anti-communist state. The ruling government already had thought that the best solution was to join the western bloc. As Eroğul notes, the domestic regime had to be compatible with the western models.<sup>183</sup> The single-party regime was no longer advantageous under this conjunction.

Between 1945 and 1950, there was not a big difference between the RPP and DP in terms of the foreign policy. Koçak writes there was an understanding of "[a singular] national foreign policy" in these years. The RPP understandably tried to adjust its rule to the interests of global capitalist powers due to the pressure both from domestic politics and the Soviet threats, in the DP program, there was no alternative to this policy either. The leader of the party, Celal Bayar, even mentioned that they were in concordance regarding foreign policy with the government party (RPP) in his inauguration speech of the DP.<sup>184</sup>

In the new era of Turkey-USA relations, financial aid was just as important as military aid. But until the 1947 Truman Doctrine and the following Marshall Plan,<sup>185</sup>

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<sup>181</sup> İzzettin Önder, "Kapitalist İlişkiler Bağlamında ve Türkiye'de Devletin Yeri ve İşlevi," in *Küresel Düzen: Birikim, Devlet ve Sınıflar*, ed. Ahmet Haşim Köse, Fikret Şenses and Erinç Yeldan (İstanbul: İletişim, 2004), p. 269.

<sup>182</sup> Keyder, "Türkiye Demokrasisinin Ekonomi Politikası," p. 52.

<sup>183</sup> Eroğul, "Çok Partili Düzenin Kuruluşu," p. 114.

<sup>184</sup> Koçak, *İktidarlar ve Demokratlar*, p. 310.

<sup>185</sup> Truman Doctrine was named after the US president Henry Truman's speech in the Congress dated, 12 March 1947. It comprised economic and military aid to Greece and Turkey. Marshall plan was an economic aid program for the restoration of Europe. It began with the Foreign Relief and Assistance Act dated 1948 and was named after the secretary of state, George Marshall.

there wasn't large scale money flow from the US to Turkey. In 1946, the US Eximbank stated they could open only a 50 million dollar credit line to Turkey (an amount double that of to the previous year<sup>186</sup>). Moreover, the Turkish economy was in need of motor vehicles, highways, and railroads, which also required financing. Turkey also asked the US if it was possible to expand its quota on the trade of motor vehicles. Gradually, the US started to sell and grant motor vehicles and aid the Turkish military with logistics materials. In addition, the US government cancelled the debts of Turkey from the lend and lease programs during the Second World War.<sup>187</sup> However, as mentioned before, the major military and financial agreements came into play as part of the Truman Doctrine and Marshall Plan.<sup>188</sup>

Tanel Demirel challenges the idea in the orthodox literature that democratization was dependent mostly on foreign relations, particularly the military, economic and financial relations with the US. To support his thesis that, he states that Spain and Portugal obtained US support even without a liberalization process. The desire for democratization in Turkey, therefore, was not only due to the effects of international conjuncture.<sup>189</sup> It had internal dynamics, too.

#### The Domestic Determinants and the Disposal of the Bureaucratic Rule

When looking into the internal factors that triggered the democratization and liberalization process, one must remember the dynamics of the single-party regime and the Second World War years, as explained above. The political and economic progress of the bourgeoisie coupled with the hardships experienced by the population

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<sup>186</sup> See page 55.

<sup>187</sup> Lend and Lease was a US program aiming to provide necessary supplies and materials to the allied countries of the US during World War II.

<sup>188</sup> Koçak, *İktidarlar ve Demokratlar*, pp. 209-304.

<sup>189</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 44.

in these years played a significant role in the demise of the single-party regime.<sup>190</sup> The RPP was left without social class support and was eventually displaced from political power.

One dimension of this gradual loss of power manifested itself in the ever more liberal economic policies adopted by the RPP, which was desperate not to lose its support base. According to Öztürk, it is possible to define the period between 1945 and 1960 as the period of industrial capital, since the characteristics of the era were the emergence of industrial bourgeoisie as the dominant fraction in the bourgeoisie. The level of industrialization was much higher compared to the 1930s. In addition, state subsidies and the transfer of resources to industrial bourgeoisie increased in this period.<sup>191</sup>

Indeed, one of the indicators that the industrial bourgeoisie had come to the fore was the backing of the state in industrial investments. There were two forms of support. One of them was the low price policy for products of State Economic Enterprises that were to be used by the private sector as inputs. The second one was partnering with the private sector. There were advantages for private sector companies in being partners with the state, such as lucrative financial conveniences. In this type of partnership, the state paid in the promised capital while the private sector delayed its payments.<sup>192</sup>

The 1948 Economic Congress reified the new liberal accumulation strategy by taking favorable decisions on foreign capital and private entrepreneurship. The new strategy projected rapid growth in the area of light industry, and more gradual

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<sup>190</sup> Feroz Ahmad, *Demokrasi Sürecinde Türkiye (1945-1980)* (İstanbul: Hil, 2007), p. 24.

<sup>191</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 62.

<sup>192</sup> *Ibid.*, pp. 66-67.

development for the heavy industry and stable trade relations.<sup>193</sup> Öztürk states that the establishment of new banks and insurance firms at the end of the war and its aftermath was related to the necessities of growing trade.<sup>194</sup>

As mentioned above, the liberal accumulation strategy was also crucial for the hegemony project of the DP. Both the liberalization after 1945 and proceedings of 1948 Economic Congress favored DP-type economy policies on the political stage<sup>195</sup> and the RPP could not continue its hegemony over the social classes.

The Wealth Tax, and the Land Law of 1945 had shown what the bureaucratic mechanism could do, and disturbed the landowners and business interests. In that sense, the bourgeois opposition began to search for ways to remove the bureaucracy from political power. The first condition was to make use of the fact that the masses were alienated from the administrative bureaucracy.<sup>196</sup> Yerasimos argues that, following the Independence War period, all the actions of the bureaucratic apparatus were shaped by a single idea: the emergence a national bourgeoisie. Even the spectacular reformist actions which seemingly aimed at social change were designed with future or existing bourgeois class interests in mind. Under these circumstances it would not require a lot of guess work to think that the actions of the bureaucratic regime generated considerable unease among exploited classes. Perhaps the bourgeoisie could now utilize this alienation.

The second condition was to isolate the bureaucratic apparatus from all kinds of class alliance and to gather together social classes which control the means of

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<sup>193</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1349.

<sup>194</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 61.

<sup>195</sup> The papers presented on the congress had a common point of criticizing the statist approach to the economy and proposed that the limits of state intervention should be determined in favor of private entrepreneurship. Mehmet Türkay, "1948 İktisat Kongresi: 'Devletçilik-Liberalizm' Bir İkilem midir?" in *Sermaye Birikimi, Kalkınma, Az Gelişmişlik: Türkiye ve Dünya Üzerine Notlar* (İstanbul: SAV, 2009): 234-255, p. 237.

<sup>196</sup> *Ibid.*, pp. 1341-2.

production. That meant the new hegemonic bloc would consist of commercial capital, industrial capital, agricultural capital and notables of the towns. With regards to the rise of an industrial bourgeoisie, one must not forget that the economy mainly depended on agriculture in large scale. In that sense, big landowners were still important in the power bloc, not least because they had considerable influence on peasants which was significant in elections in a parliamentary regime.<sup>197</sup> Peasantry constituted 75 percent of Turkey's population. With regard to the multi-party system and elections, Keyder states that the support of peasants had gained importance for the first time in the political scene.<sup>198</sup>

In its ruling years, the bureaucratic regime had created its own clientelist relations. Examples were local high bureaucracy sections, the bureaucratic layers of the administrative hierarchy, and the bourgeoisie who had close relations with the government. While the difficulties of the war period stiffened the group around political power, the authoritarian measures taken by the ruling fraction to compensate for the demands of privileged segments brought the general disapproval. Thus, the bourgeoisie around İş Bankası found a great backdrop when it showed its thrust towards liberal economy with the support of foreign capital. The bureaucracy were outplayed by the hegemonic alliance of business. The political power, now isolated, had only the support of precapitalist large landowners in Eastern Anatolia by the end of the 1940s.<sup>199</sup>

At this very moment, against the domination of the bureaucratic and coercive apparatus, the bourgeoisie jumped into the political stage as the guardian of the working classes. In fact, the bourgeois classes wanted to install their hegemony

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<sup>197</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1342.

<sup>198</sup> Keyder, "Türkiye Demokrasisinin Ekonomi Politikası," p. 53.

<sup>199</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, pp. 1342-3.

directly in the political stage; the alliance with subordinate classes was a strategic extension against the ruling bureaucratic mechanisms.<sup>200</sup> The policies in the war years, the economic burden on lower classes, and the grievances from the bourgeoisie against the statist and interventionist economic policies left the RPP without social class support.<sup>201</sup> Arguably the multi-party system was now safer for bourgeoisie to protect its interests.<sup>202</sup>

### Bourgeois Opposition as Political Party: The Foundation of the Democrat Party and Liberalization under the RPP Rule

Considering the bourgeois opposition to the bureaucratic regime in the parliament, it was already clear that the single party could not evolve towards pure domination of the bourgeois fractions. The predilection of the dominant capitalist classes towards liberal democracy was not enough as an explanation for the parliamentary opposition: Since the RPP was itself trying to become more liberal at the time, furthermore, the other factor behind the opposition was the tension between the bureaucracy and the bourgeoisie. While the parliamentary process had shown the power of the capitalist class; on the other hand, there were limitations to demands of the bourgeoisie. Hence, the bourgeois opposition leaders resigned from the RPP.

To understand and explain the tension between the bureaucracy and the bourgeoisie correctly, one should look into the formation of the republican bureaucracy. The republican bureaucracy was not an entity created by the bourgeoisie, on the contrary the bourgeoisie had had to accept the bureaucratic rule. As late as 1945, the RPP still aimed to preserve its own vision in the field of

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<sup>200</sup> Ibid., pp. 1341-2.

<sup>201</sup> Owen and Pamuk, *A History of Middle East Economies in the Twentieth Century*, p. 26.

<sup>202</sup> Eroğul, "Çok Partili Düzenin Kuruluşu," pp. 114-5.

economy through its powerful hierarchy, its political and public enterprises. Yet, as mentioned before, there was no class support to back up the bureaucratic hegemony.

The shift and change in the power bloc witnessed resistance from the bureaucratic regime. The representative in the political stage, the RPP made some minor changes that could easily be named as protective measures for its hegemony project. These were mainly put in place by compromising in the statism and secularism principles. According to Yerasimos, the bureaucratic rule looked like it was ready to compromise in all sorts of issues when negotiating with the national bourgeoisie and international capital to protect its power.<sup>203</sup>

The first compromise was the promise for a more liberal regime on May 19, 1945. It is widely considered that the speech of president and RPP chairman İsmet İnönü on 19 May 1945, was the first sign towards democratization. In the speech, İnönü pointed out that the war was over and there could be new steps for the development of democracy.<sup>204</sup> Although the press at the time would not interpret the speech as a new beginning in the political scene, it is known as a cornerstone in signaling the end of the single party regime.<sup>205</sup>

The second sign of compromise was in the by-elections. The November speech of İnönü in which he mentioned the need for an opposition party were the other steps towards democratization in 1945.<sup>206</sup> The RPP administration was conspicuously suggesting the bourgeois opposition to establish a political party and wanted to settle accounts in the political arena.

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<sup>203</sup> Ibid., pp. 1344-5.

<sup>204</sup> Eroğul, "Çok Partili Düzenin Kuruluşu," p. 113.

<sup>205</sup> Cemil Koçak, *İkinci Parti. Türkiye'de İki Partili Siyasi Sistemin Kuruluş Yılları (1945-1950) v. 1* (İstanbul: İletişim, 2010), pp. 228-32.

<sup>206</sup> Eroğul, "Çok Partili Düzenin Kuruluşu," p. 113. In his November speech, İnönü did not take the National Development Party into account as an opposition party or in other words, political rival who had capacity to deal with the RPP. Akın, *Çok Partili Hayata Geçiş*, p. 92. Albayrak claims the cause of the ignorance to the NDP was the *Dörtlü Takrir* and arguments around the declaration. Mustafa Albayrak, *Türk Siyasi Tarihinde Demokrat Parti (1946-1960)* (Ankara: Phoenix, 2004), p. 54.

After the declaration named *Dörtlü Takrir*, which demanded democratization in the RPP<sup>207</sup> by Celal Bayar, Adnan Menderes, Refik Koraltan and Fuat Köprülü, who were still RPP members at the time and also the opposing wing on the land reform, İnönü stated that establishing a new political party would be more beneficial than being in opposition within the RPP.<sup>208</sup>

When the political environment became ready to tolerate this political opposition, the DP was founded on 7 January 1946. The party would be the instrument of the bourgeois opposition to directly intervene in politics. If one looks at the names of the founders, the socio-political class tendency of the DP can be seen more easily. The first name on the founder list was Celal Bayar, the founder of İş Bankası. Adnan Menderes, as a big landowner, directed the opposition against the land reform. Refik Koraltan was a lawyer and Fuat Köprülü was a history professor. The founders of the of the Democrat Party were schematically the four faces of the bourgeois movement in Turkey: Financial capital, agricultural capital, independent business and bourgeois intellectual.<sup>209</sup> In addition, Demirel remarks that the characters of DP's leaders give some insights to the hegemonic rule of the party. According to him, Menderes was the face of national will whereas Bayar represented state discipline and formality.<sup>210</sup>

The party program of the DP indicated the liberal intentions of the bourgeoisie. Yet, one can notice many resemblances between the RPP and DP programs. According to Koçak, it was not possible to expect the DP program to be that different from the RPP's. First and foremost, the constitution and laws were the main obstacles to draft a program that was radically different from the RPP. Koçak

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<sup>207</sup> Albayrak, *Türk Siyasi Tarihinde Demokrat Parti*, p. 44.

<sup>208</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 49.

<sup>209</sup> Yerasimos, *Az Gelişmişlik Sürecinde Türkiye*, p. 1346.

<sup>210</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, pp. 106-7.

also claims that the founders of the DP would in any case not have deviated from the RPP program, even if there hadn't been any judiciary obstacles.<sup>211</sup>

A DP member at that time, Samet Ağaoğlu described the situation as two parties with a similar program, but with different ways to reach the same goal.<sup>212</sup> Also, according to the DP, the RPP was a totalitarian party which had a bylaw that gave all the power and authority to the leader of the party. To counter this fact, the DP organization set up democratic mechanisms inside the party.<sup>213</sup> Furthermore, the DP leaders usually complained about the anti-democratic structure of the RPP organs. Democracy, they stated, was also needed for the executions of the government and individual freedom. Posing itself as being opposed to the RPP tyranny, the DP gained the admiration of the masses, hence, according to Ahmad, concentrated its opposition to the RPP around this theme. But it was the economic section of the program that made the most impact on the western bloc. The DP program promoted private entrepreneurship which was seen as an essential condition for economic development.<sup>214</sup> For the DP, the essence of modern civilization was private property, and capitalism based on free enterprise. The US was the role model for Turkey where entrepreneurship, moral, traditional and religious attitudes combined in society.<sup>215</sup> When considering the approach of the DP towards the private sector, it is quite understandable why the capitalist world was charmed by the economy politics and projections of the DP.

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<sup>211</sup> Koçak, *İktidarlar ve Demokratlar*, p. 76.

<sup>212</sup> Samet Ağaoğlu, *İki Parti Arasındaki Farklar* (Ankara: Arbas, 1947), p. 35, Koçak, *İktidarlar ve Demokratlar*, p. 78.

<sup>213</sup> Ağaoğlu, *İki Parti Arasındaki Farklar*, pp. 22-7, Koçak, *İktidarlar ve Demokratlar*, p. 82.

<sup>214</sup> Ahmad, *Demokrasi Sürecinde Türkiye*, pp. 30-1.

<sup>215</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 118.

The DP program thus clearly indicated the tendency towards liberal economy politics.<sup>216</sup> As seen on the article 53 of the program, the DP considered law and order, for investments and stability in the political scene, as necessary condition for the market to flourish.<sup>217</sup> The state had to refrain from interfering in the market unless there was an obligation.<sup>218</sup> The DP acknowledged that for the best economic results, state intervention was not the appropriate policy. After all, they criticized all the approaches and actions that favored public sector and restrained the private.<sup>219</sup> As discussed above, in the early Republican period, the interests of the working class were neglected as seen in the Labor Law. But the suppression of labor rights had not benefited business all that much. The reason was bureaucratic restrictions for the development of the private sector. The DP wanted to remove those restrictions.<sup>220</sup> Yet, this was not a complete refutation of statism. For the sake of private entrepreneurship and capital, the state's economic activities had to be limited, but allowed to exist.<sup>221</sup>

As mentioned before, the hegemony project of the DP comprised broad social groups. The DP always showed great effort to present itself as a mass party, and used to its advantage populist policies and discourses which rallied the lower classes.<sup>222</sup> İlkay Sunar states that the populist parties broadly use clientelism to contain the people through the sources and services they control.<sup>223</sup> But as mentioned earlier, the DP was a product of the bourgeois opposition. The major elements behind decisions

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<sup>216</sup> Cem Erođul, *Demokrat Parti Tarihi ve İdeolojisi* (Ankara: Ankara SBF, 1970), p. 14.

<sup>217</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 55. Ağaođlu, *İki Parti Arasındaki Farklar*, p. 73.

<sup>218</sup> Ağaođlu, *İki Parti Arasındaki Farklar*, p. 65.

<sup>219</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 56. Albayrak, *Türk Siyasi Tarihinde Demokrat Parti*, p. 69.

<sup>220</sup> Ahmad, *Demokrasi Sürecinde Türkiye*, pp. 34-5.

<sup>221</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, pp. 56-7. Hamdi Ciliv, *Demokrat Parti Tüzük ve Programı Baside İcra: Demirkırat Alfabesi* (Ankara, 1992), pp. 133-4.

<sup>222</sup> Çağlar Keyder, *Türkiye'de Devlet ve Sınıflar* (İstanbul: İletişim, 2007), p. 153.

<sup>223</sup> İlkay Sunar, "Demokrat Parti ve Popülizm," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1983): 2076-86, p. 2077.

of the party in the political stage were the big business and big landowners.<sup>224</sup>

Populism provided a broad coalition, but only as part of the hegemony project.

In relation to the problematic of hegemony, Galip Yalman claims that the DP's criticism of the single-party regime could be seen as an expression of the failure of statist hegemony project's intention to build up an integral state. The anti-elitist and anti-statist discourse of the DP was undoubtedly functional in establishing a new hegemony project under the leadership of the bourgeoisie which did not actually have the intention of parting ways with the state. Yalman argues that seeing the case as an attempt to constitute a new historical bloc could provide a more reliable ground in understanding and examining the social particularities and dynamics of the social change. Thus, instead of treating the state and class relations as an exteriority, one can reach the conclusion that the making of the bourgeoisie was only possible by and through the state.<sup>225</sup>

In this context, according to Yalman, the transition to multi-party system was a new implementation of the passive revolution strategy which did not comprise a shift in the balance of the power relations in the new conjuncture. The state assumed a key role to block the subordinated classes to form their economic-corporative and political institutions both in the statist and anti-statist hegemony projects.<sup>226</sup> As Savran writes, the 1946-1950 rule of the RPP and its governments laid the basis for the political actions of the DP rule. The DP further advanced the political and economic measures of the 1946-1950 period and systematized them.<sup>227</sup>

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<sup>224</sup> Demirel, *Türkiye'nin Uzun 10 Yılı*, p. 110.

<sup>225</sup> Galip Yalman, "Tarihsel Perspektiften Türkiye'de Devlet ve Burjuvazi: Rölativist bir Paradigma mı Hegemonya Stratejisi mi?," *Praksis* 5 (2002): 7-23, p. 13.

<sup>226</sup> *Ibid.*, p. 14.

<sup>227</sup> Sungur Savran, *Türkiye'de Sınıf Mücadeleleri*, p. 160. Boratav writes the transition began before the DP came to power. Boratav, *Türkiye İktisat Tarihi*, p. 97.

This chapter examined the transition years of Turkey after the Second World War. The shift in capital accumulation regime towards open economy policies in international capitalist order echoed in the socio-political and economic structure of Turkey. The bourgeoisie got richer during the war years and began to oppose the government in terms of political and economic liberalization. The opposition obtained the support of subordinate classes which were tired of the repressive rule of the bureaucratic regime. When the hegemony project of the bureaucratic regime collapsed after the War ended, the Democrat Party entered the political scene to represent the bourgeoisie. The DP program reflected the demands of the bourgeoisie and international capitalist development. Political and economic liberalization had already begun before the DP came to power. However, the DP opposition were strong enough to take the political reign in 1950. In that sense, the shift in power relations only relates to changes in the power bloc. During the DP governments, the bourgeoisie found an adequate climate to rise in industry and finance. The ground rules for the transformation of capital groups as conglomerates and finance capital were laid in the 1950s.

## CHAPTER IV

### THE RISE OF PRIVATE SECTOR BANKING, 1946-1958

The structure of the financial development process in late capitalized countries, as well as the dynamics of capitalist expansion in these countries were discussed above. The parallels were drawn between the general mechanisms of capitalist growth and historical developments in countries like Turkey. The description of concepts such as finance capital, the centralization and intensification of capital were also discussed in the introduction. Using this general background this chapter examines the monetary and fiscal politics of the DP era which provided a suitable environment for the rise of private sector banking and finance capital organizations.

The capitalist development in Turkey and the transformation of the bourgeoisie corresponds to the general mechanisms of capitalist expansion in late capitalized countries. The establishment of large-scale industrial facilities, foreign capital investments, state subsidies and the capitalist transition of the agricultural sector expanded the base of capitalist production. As a result, the power of the industrial bourgeoisie increased in the political area. This process accelerated the developments in the banking sector and monetary/credit systems as well.<sup>228</sup> In this context, tracking down the development of private banking sector during the DP era will also be an attempt to contextualize the rise of the Turkish bourgeoisie first through banking, and later increasingly through conglomerates in the 1960s.

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<sup>228</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 74.

## The Banking Sector and Private Sector Banking after the Second World War

The previous chapter discussed the political transformation and shift in the economic policies in Turkey. The conclusions reached that the new implemented liberal economy policies were capital-class oriented and that the balance of the struggle in the power bloc between the bourgeoisie and the bureaucracy shifted towards the capital owners. Liberalization of the economic sphere was the main demand of business. The political and economic conditions of the post-war era also signaled open economy policies in the international capitalist system. The relatively open trade conditions included an expansion toward foreign capital credits. In this context, financial capital and private banking began to take an important place in the formation of the bourgeoisie, and became factors in the decision making process. One reason for the establishment of the new banks during and after the war was the increase in trade.

The establishment of the new banks by private capital was a result of the capital accumulation process. Today's top-tier banks like Yapı ve Kredi Bankası, Garanti Bankası and Akbank were among the private banks opened in the period.<sup>229</sup> Moreover, as Uygur Kocabaşoğlu notes, the earlier-established and biggest private bank in Turkey, İş Bankası, started to have even a more respectable role and strengthened its position further in the economy, as a result of the shift toward participating in free trade relations and the international capital. İş Bankası showed interest especially in new companies established with the help of foreign capital. The foreign aid and credits granted also provided an increase in the affiliates of İş

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<sup>229</sup> Ibid., pp. 61.

Bankası.<sup>230</sup> From the 1920s to the late 1940s, was an era of public sector banking. The three private banks established at the end of this period pioneered the private sector banking.<sup>231</sup> Yapı ve Kredi Bankası, which was founded in 1944 to cater to the real estate sector, was transformed into a commercial bank after Emlak ve Kredi Bankası was established specifically for this sector in 1946. Akbank, which carried the initials A and K to represent its merchant and landowner founders from Adana and Kayseri; and Garanti Bankası, which was founded as a commercial bank in Ankara (then moved its center to İstanbul), formed basis for the rise of private sector banking together with İş Bankası in the second half of the 1940s.<sup>232</sup>

Besides the establishment of Yapı Kredi, Garanti, and Akbank, the major banking sector activity took place after the DP came to power in 1950. Investments, modern establishments, increases in gross national product and population, rising urbanization, an increase in the share of the industrial sector from national product, and the expansion of market-oriented production for the markets in the post-war period caused the need for money and credits in the economy. Therefore, investments in the banking sector became more profitable when compared to the previous years. As a result, the private sector banking gained importance in the period.<sup>233</sup>

Typical characteristics of the banking sector in Turkey in the post-war period were the growth of private sector banking, establishment of state-led development banks, such as the Industrial Development Bank of Turkey (*Türkiye Sınai Kalkınma*

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<sup>230</sup> Uygur Kocabaşoğlu, et al., *Türkiye İş Bankası Tarihi* (İstanbul: İş Bankası Kültür Yayınları, 2001), p. 360.

<sup>231</sup> Halil Çivi, *Türkiye'de Bankacılık - Teori, Uygulama ve Sonuçlar* (Ankara: Fon Matbaası, 1985), p. 102.

<sup>232</sup> Tuncay Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık* (Ankara: Tekin, 1980), p. 46.

<sup>233</sup> Türkiye Bankalar Birliği, *50. Yılında Türkiye Bankalar Birliği ve Türkiye'de Bankacılık Sistemi 1958-2007* (İstanbul: Türkiye Bankalar Birliği, 2008), p. 6.

*Bankası*, 1950) and the spread of branch banking.<sup>234</sup> Branch banking was a natural consequence of a banking sector which depended on the deposits it collected. Before the opening of each new bank branch, bank inspectors generally prepared a detailed report about the demographic and socio-economic characteristics of the area where the bank's branch would be opened.<sup>235</sup> The opening of new branches were thus determined by interior reports. Besides the evaluation of banks to open new branches, there was a growing demand by the people in the period. According to a document, there were 65 official applications for a new bank branch sent to İş Bankası headquarters between March 1948 and March 1953. Only a quarter of the applications were from the organs of the bank. Remaining applications were either from local notables directly or political parties, chambers of commerce and industry, ministries, municipalities etc. that delivered the demands of local notables.<sup>236</sup>

When the opening criteria of a bank's branch was discussed, the banks also considered per capita ratio, deposit and personnel costs for a branch. During the 1950s, the increase in the number of bank branches also meant an increase in banking costs. It's been claimed that the banking costs were reflected in the rise of credit costs and ultimately in decreasing profits.<sup>237</sup> Also It should be noted that the growth of branch banking accelerated the liquidation of local banks.<sup>238</sup>

The increase in the number of banks and bank branches during the expansionary period of the private sector banking could be tracked by the following table:

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<sup>234</sup> Öztin Akgüç, *100 Soruda Türkiye'de Bankacılık* (İstanbul: Gerçek, 1992), p. 41.

<sup>235</sup> Arslan Yüzgün, "Türk Bankacılığının Tarihsel Gelişimi," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1985): 155-170, 157.

<sup>236</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, pp. 324-7.

<sup>237</sup> *Ibid.*, p. 158.

<sup>238</sup> Türkiye Bankalar Birliği, *50. Yılında Türkiye Bankalar Birliği ve Türkiye'de Bankacılık Sistemi*, p. 6.

Table 1. The Number of Banks and Branches 1946 and 1958

Year	National Banks	Foreign Banks	Total Number of Banks	National Bank Branches	Foreign Bank Branches	Total Number of Branches	Average Number of Branches per Bank
1946	35	7	42	401	43	444	10.5
1947	33	7	40	428	41	469	11.7
1948	35	7	42	476	45	521	12.4
1949	36	7	43	550	44	594	13.8
1950	37	7	44	564	47	611	13.9
1951	37	6	43	645	49	694	16.1
1952	39	6	45	714	49	763	16.9
1953	43	6	49	842	51	893	18.2
1954	46	6	52	1028	51	1079	20.7
1955	49	7	56	1183	52	1235	22.1
1956	52	6	58	1312	52	1364	23.5
1957	54	6	60	1452	54	1506	25.1
1958	56	6	62	1593	60	1653	26.7

Source: Compiled from the data in Öztin Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler* (Ankara: Tisa, 1975), pp. 66-7; Yüzgün, "Türk Bankacılığının Tarihsel Gelişimi," p. 161; Arslan Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi (1923-1981)* (İstanbul: Der, 1982), pp. 18-9.

Kocabaşoğlu writes that the increase in the number of banks and branches could be interpreted as a result of the rising profit margin of the finance sector in the 1950s. Law No. 5841 was promulgated in 1951 with the purpose of regulating interest rates. The law determined the interest rate upper limit as 7 percent in deposits and 9 percent in lending. But the lack of sufficient control in finance widened the gap between legal and real interest rates. Thus, the deposit rate, which was 7 percent in 1951, rose to 9.8 percent in 1956. In private commercial banks, the ratio of total interest and commission income to the credits also had a rising trend. The ratio was 8.8 percent in 1953, but by the year 1958, it had risen to 13.3 percent.<sup>239</sup> Moreover, only the Central Bank had the rights to operate in foreign currencies. These factors

<sup>239</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, pp. 378-9.

affected the growth in number of bank branches and competition to collect deposits.<sup>240</sup>

The 1950s witnessed an acceleration in the process of intensification and centralization of national capital. The process was first seen in banking and commerce followed by industry. Rozaliyev remarks that the most determining factor in the growth of national capital was the increase and consolidation in national bank capital.<sup>241</sup>

In 1948, the total paid -up capital of Turkish banks was 36.5 million liras (12.9 million USD), but by 1961, the total amount had increased to 2.8 billion liras (308 million USD).<sup>242</sup> Also, the capital reserves increased from 97.3 million liras (34 million USD) to 593 million liras (65.2 million USD); total deposits increased from 996.3 million liras (348.7 million USD) to 8.574 billion liras (948 million USD); total credits increased from 1.187 billion liras (415.4 million USD) to 8.368 billion liras (925.1million USD) in the years between 1948 and 1961.<sup>243</sup> Artun writes bank shareholdings were an important indicator of the unification of bank capital, commercial capital and industrial capital. Participation in bank capital by bank, commercial, and industrial groups were 434 million liras (151.9 million USD) in 1948, by 1961 they rose to 1.8 billion liras (198 million USD).<sup>244</sup>

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<sup>240</sup> Türkiye Bankalar Birliği, *50. Yılında Türkiye Bankalar Birliği ve Türkiye'de Bankacılık Sistemi*, p. 6.

<sup>241</sup> Y. N. Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri (1923-1960)* (Ankara: Onur, 1978), p. 205.

<sup>242</sup> From here onwards, always in the respective years' year-end exchange rates as: 1 USD = 1.31 TL for 1943-45, 1 USD = 2.8252 TL for 1496-1959, 1 USD = 9.045 TL for 1960-1963 period.

<sup>243</sup> Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık*, pp. 46-7.

<sup>244</sup> *Ibid.*, p. 47; Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 226-7; Tezer Öcal, *Türk Banka Sistemi* (Ankara: Emel, 1973), p. 47.

Table 2. Growth in Key Balance Sheet Figures, 1948-1961(million TL/USD)

	1948		1961		% Increase (USD)
	TL	USD	TL	USD	
Paid-up Capital	36.5	12.9	2800	308	2287.5
Shareholdings	434	152	1800	198	30.3
Capital Reserves	97.3	34	593	65.2	91.7
Total Deposits	996.3	348.7	8574	948	171.8
Total Credits	1187	415.4	8368	925.1	122.7

Source: Compiled by thesis author from Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık*, pp. 46-7; Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 226-7; Öcal, *Türk Banka Sistemi*, p. 47. TL/USD conversions and calculations were made by thesis author.

Considering price increases especially after 1950, nominal numbers could deceive the growth in banking sector. Therefore, fixing the prices may present more reliable picture. To convert the existing numbers, wholesale price index for 1948 by Department of Commerce was used in the below:<sup>245</sup>

Table 3. Department of Commerce Price Index (1948=100)

Year	(1948=100)
1948	100
1949	108
1950	97
1951	103
1952	104
1953	107
1954	118
1955	127
1956	148
1957	175
1958	202
1959	242
1960	255
1961	263

Source: Mükerrerrem Hiç and Erdoğan Alkin, "1965 Yılı Fiyat Artışları ve 1950 Yılından Bu Yana Fiyat Endekslerinin Seyfi," in *1965 Yılı Fiyat Artışları Münasebetiyle Türkiye'de Enflasyon* (İstanbul: Sermet, 1968): 11-31, p. 23.

<sup>245</sup> From here onwards, Department of Commerce (1948=100) index will be used for conversions and price fixings in the tables starting from 1948 or following years.

When the numbers are refined growth in key balance sheet figures between 1948 and 1961 is seen below:

Table 4. Growth in Key Balance Sheet Figures, 1948-1961 with 1948 Prices (million TL)

	1948	1961
Paid-up Capital	36.5	1065
Shareholdings	434	684.4
Capital Reserves	97.3	225.4
Total Deposits	996.3	3260
Total Credits	1187	3182

Source: Conversions were made by thesis author according to table 2 and table 3.

Artun points out two aspects in the 1950s of the Turkish banking system. The first was the unification of the banks with commerce and industrial capital. This was the main driver of the intensification and centralization of national capital. The unification of bank, commercial and industrial capitals had begun with İş Bankası in the 1920s, to be followed by private sector banking in the 1950s.<sup>246</sup>

The other aspect of the Turkish banking system in the 1950s was the establishment of banks as apparatuses of "swindle (*kapkaççı*) capitalism." These banks were *Doğubank* (Eastbank) (1952), *Raybank* (1956), *Tümsübank* (1957), *Esnaf ve Kredi Bankası* (Craftsmen and Loan Bank) (1957), *Sanayi Bankası* (Industrial Bank) (1958) and *Maden Kredi Bankası* (Mine and Loan Bank) (1958). The main purpose of these banks seems to have been to create a millionaire in every province as they illegally transferred the savings of depositors to the bank owners before being liquidated.<sup>247</sup>

If Yapı Kredi (1944) is included, the years between 1944 and 1958 saw the opening of 28 new national banks, 21 of which were established after the DP came to power. The full list of newly established national banks is shown below:

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<sup>246</sup> Ibid.

<sup>247</sup> Ibid., p. 48.

Table 5. Newly Founded Banks Between 1944 and 1958

No.	Foundation Year	Bank's Name	Headquarters
1	1944	Yapı ve Kredi Bankası	İstanbul
2	1946	Türkiye Garanti Bankası	İstanbul
3	1948	Akbank	İstanbul
4	1948	Türkiye Kredi Bankası	İstanbul
5	1948	Tutum Bankası	İstanbul
6	1948	Niğde Bankası	Niğde
7	1949	Muhabank	Ankara
8	1950	Türkiye Sınai Kalkınma Bankası	İstanbul
9	1951	Göynük Sanayi ve Kredi Bankası	Göynük
10	1952	Denizcilik Bankası	İstanbul
11	1952	Doğubank	İstanbul
12	1953	Türk Ekspres Bankası	İstanbul
13	1953	İstanbul Bankası	İstanbul
14	1953	Demirbank	İstanbul
15	1954	Türkiye Vakıflar Bankası	Ankara
16	1954	Türk Yapı Bankası	İstanbul
17	1954	Şekerbank	Ankara
18	1954	İşçi Kredi Bankası	Kayseri
19	1955	Buğday Bankası	Ankara
20	1955	Türkiye Turizm Bankası	Ankara
21	1955	Pamukbank	İstanbul
22	1956	Raybank	Ankara
23	1957	Tüsubank	İstanbul
24	1957	Esnaf Kredi Bankası	İstanbul
25	1957	İzmir Halk Sandığı	İzmir
26	1958	Sanayi Bankası	İstanbul
27	1958	Maden Kredi Bankası	İstanbul
28	1958	Çaybank	Rize

Source: Compiled by thesis author from Teoman Yazgan, *Türkiye'de Bankacılık* (İstanbul: Reklam, 1973), pp. 12-3; Akgüç, *100 Soruda Türkiye'de Bankacılık*, pp. 39-40; Namık Aydemir, *Dünden Bugüne Türkiye'de Bankacılık* (Ankara, 2004), pp. 22-4; Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, pp. 29, 79-81.

Tezer Öcal writes that specialization in banking in under-developed countries does not develop as in developed countries. In the late-capitalized countries the system is generally a small banks system; that is, banking operations are conducted by a large number of banks which are weak in capital. Another property of the banking in the late-capitalized countries is the huge scope of state intervention

compared with developed countries.<sup>248</sup> When the 1950s are analyzed, it indeed can be seen that there were numerous commercial banks dealing with all kinds of financial activities and there were not that many specialization banks. This changed somewhat a decade later, but even in the 1950s, banking operations would be clustered around some commercial banks and a specialization bank (Industrial Development Bank of Turkey, see below).

Apart from the question of whether it would do any good to analyze each and every bank separately, it must be underlined that for the period under study data on individual banks is lacking. Before the Turkish Union of Banks was founded in 1958, nearly none of the banks kept operations data or historical records in such manner that would enable an institutional history of the period. However, obtaining information about the banks which later became large conglomerate banks (Yapı Kredi, Garanti and Akbank) is relatively easier.

As mentioned before, the early Republican bourgeoisie was not powerful enough to transform itself into an industrial bourgeoisie. The urban bourgeoisie mainly focused on commerce, but (relatively big) business entered into the field of finance with the support of the state. In this respect, Feroz Ahmad writes the bourgeoisie, or "business lobby," in Turkey left the industrial area to the state in the early Republican period and focused on the banking sector, which it thought more profitable. İş Bankası was the first such enterprise. Ahmad remarks that the lobby was more powerful after the Second World War. Kazım Taşkent, who led the business lobby within the DP, founded Yapı ve Kredi Bankası in 1944.<sup>249</sup> Until the Çukurova Group seized control of it in 1980, Yapı ve Kredi Bankası constituted a

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<sup>248</sup> Öcal, *Türk Banka Sistemi*, p. 5. Tezer Öcal considers the categories of late-capitalized and underdeveloped as nearly similar.

<sup>249</sup> Feroz Ahmad, *Demokrasi Sürecinde Türkiye (1945-1980)* (İstanbul: Hil, 2007), p. 181.

gathering together of diverse capital groups. In this way it differed from the existing private banks, controlled usually by single family-based capital groups. In this aspect, the bank origins were similar to how the İş Bankası had been founded.<sup>250</sup>

Yapı ve Kredi Bankası was established with one million liras (0.76 million USD) capital in 1944. The part owners of the bank were Doğan Insurance Company, Demir Toprak Inc., Haydar Salih Tokal, Nihat Geyran, Muammer Tuksavul, Mustafa Nadir Önen, and Rıza Dilmen. The founder, Kazım Taşkent, was also the main shareholder of Doğan Insurance Company and Demir Toprak Inc.<sup>251</sup> The life insurance provided by Doğan Insurance Company involved residential credits. Demir Toprak Inc. had been founded to establish industry related to residential construction. To ease financing construction costs and compensate substantial damages which Doğan Insurance Company could not afford, Kazım Taşkent founded Yapı Kredi with the support of the finance minister of the period, Fuat Ağralı.<sup>252</sup>

The bank was established as a joint stock company and, like its rivals in banking, it showed quick progress in the early years. Its paid-up capital had grown to 10 million liras (3.54 million USD) in 1953. The total deposits of the bank were 6.2 million liras (4.7 million USD), of which 77.4 percent were commercial deposits in 1944. The total deposits figure increased to 82.6 million liras (29.2 million USD) in 1950.<sup>253</sup> Commercial deposits comprised 42.8 percent of this sum.

As said above, the bank was established originally to finance building construction.<sup>254</sup> Its first advertisements were about residential credits, and the bank

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<sup>250</sup> Gülten Kazgan, "Büyük Sermaye Gruplarının Türkiye Ekonomisindeki Yeri," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1985): 2397-2410, p. 2399.

<sup>251</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 43.

<sup>252</sup> Sadi Abaç, *Kazım Taşkent ve Yapı Kredi Bankası* (İstanbul: YKY, 1999), pp. 23-5.

<sup>253</sup> İbrahim Okçuoğlu, *Türkiye'de Kapitalizmin Gelişmesi İç Pazarın Oluşma Süreci İkinci Kitap (1923-1950 arası)* (İstanbul: Ceylan, 1999), p. 436; Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 108-9.

<sup>254</sup> Board of Trade, *Economic and Commercial Conditions in Turkey* (London, 1947), p. 166.

gave out prizes to its depositors to encourage savings.<sup>255</sup> But after Emlak ve Eytam Bankası was transformed into Emlak Kredi Bankası in 1945, Yapı ve Kredi Bankası operated as a commercial bank instead of a bank specializing in the housing sector.<sup>256</sup>

Garanti Bankası was similar to Yapı Kredi. The first years after its establishment were successful. It was established by gathering together 103 merchants, with a total 2.5 million liras (0.9 million USD) of capital in 1946.<sup>257</sup> The purpose of the bank was commercial banking. It also aimed at being a medium for internal and external trade and to develop economic relations with England and the US.<sup>258</sup> The bank was founded in Ankara, then relocated its center to İstanbul.<sup>259</sup>

Garanti Bankası showed quick growth immediately after being established. Its original capital of 2.5 million liras increased to 5 million liras (1.76 million USD) in 1951 and 10 million liras (3.5 million USD) in 1953. The bank's savings deposits, 0.743 million liras (0.26 million USD) in 1946, increased to nearly 15 million liras (5.3 million USD) in 1950. Also, commercial deposits rose 740 percent from one million liras (0.35 million USD) to 8.4 million liras (2.97 million USD) in the same period. The net profit of the bank was 0.323 million liras (0.114 million USD) in 1948. It increased by 364 percent 1.5 million liras (0.531 million USD) in 1953.<sup>260</sup>

It discussed above that conglomerates in late capitalized countries generally belonged to family groups or operated under the control of the founding family. Of the banks mentioned up to now, Akbank was the closest to this model. The bank's

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<sup>255</sup> Orhan T. Topçuoğlu, ed., *Cumhuriyet Döneminde Bankacılığımızda İlkler* (Ankara, n.p.: 1987), pp. 56-9.

<sup>256</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 43.

<sup>257</sup> *Ibid.*, p. 44.

<sup>258</sup> Board of Trade, *Economic and Commercial Conditions in Turkey*, p. 166.

<sup>259</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 44.

<sup>260</sup> Okçuoğlu, *Türkiye'de Kapitalizmin Gelişmesi*, p. 435.

city of birth, Adana, was known for agricultural production. Cooperation between local farmers and entrepreneurs from Kayseri started industrial production in Adana. New industrial facilities were established as the result of this cooperation, and textile production in Adana grew vastly, able to meet domestic demand. This economic and industrial progress resulted in a need for a financial institution to solve the financial problems of the textile industry in the region.<sup>261</sup>

Akbank was founded in 1948 to execute all kinds of banking operations, and economic, fiscal and commercial activities under the law. The co-founders of the bank were the (Ömer) Sabancı, (Bekir and Ahmet) Sapmaz, (Nuri) Has, (Behice) Yazgan, (Mustafa) Özgür, and (İbrahim) Tekin families. The bank was established in Adana, but with its rapid growth, the headquarters were moved to İstanbul and the Sabancı family became its main shareholders.<sup>262</sup>

The bank showed speedy growth in its early years, just like Yapı Kredi and Garanti. Its foundation capital 5.7 million liras (2.01 million USD) in 1948 increased by 163 percent to 15 million liras (5.3 million USD) in 1952. In the same period, the paid-up capital of the bank increased from 2 million liras (0.7 million USD) in 1948 to 5.7 million liras (2.07 million USD) in 1952. Again, between 1948 and 1952, savings deposits increased by 2698 percent from 0.847 million liras (0.3 million USD) to 23.7 million liras (8.3 million USD); the rise in commercial deposits was 975 percent, from 1.2 million liras (0.424 million USD) to 12.9 million liras (4.5 million USD).<sup>263</sup>

In meetings in the Ministry of Commerce, the government demanded contributions from the national banks for the growth of the national industry. They

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<sup>261</sup> Zafer Toprak, *Bir Geleceğin Geçmişi 1948'den 1998'e Akbank Tarihi* (İstanbul: Akbank, 1998), p. 21.

<sup>262</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 44.

<sup>263</sup> Okçuoğlu, *Türkiye'de Kapitalizmin Gelişmesi*, p. 435.

were to take responsibilities, and invest in industry either on their own or by joint ventures.<sup>264</sup> Despite the fact that the bank had a more direct relationship with the big bourgeoisie, Akbank cannot be considered to have been a domineering institution among premature finance capital organizations. Öztürk writes that the first shareholdings of Akbank in the 1950s were symbolic. The bank owned stock in Çukurova Electric and Çukurova Cement, two companies which grew thanks to Marshall Aid contracts targeting industrial growth, as industrial facilities in the region. It also had small shares in the Industrial Development Bank of Turkey (IDBT) and Halk Bankası. The bank held only Akova Ticaret with a majority share.<sup>265</sup>

Despite the observable growth during the DP governments in almost all the private banks and their shareholdings, İş Bankası maintained its position as the biggest private bank in the sector. Its dominant position depended on the structure and legacy of the bank from the early 1920s. To remember, İş Bankası had two objectives, to collect deposits to provide short-term credits to commerce and industry, and to participate in economic growth initiatives by establishing and administering joint stock companies.<sup>266</sup> For example, in the banking sector, *Türk Ticaret Bankası* (Turkish Commercial Bank) was under the control of İş Bankası.<sup>267</sup> Also, İş Bankası was a minority shareholder in *Osmanlı Bankası* (Ottoman Bank), *Yapı Kredi, Birleşik Tasarruf ve Kredi Bankası* (United Savings and Loan Bank), *Denizcilik Bankası* (Maritime Bank), *Vakıflar Bankası* (Foundations Bank),

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<sup>264</sup> Toprak, *Bir Geleceğin Geçmişi 1948'den 1998'e Akbank Tarihi*, p. 66.

<sup>265</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 243.

<sup>266</sup> Selçuk Abaç, "Türkiye'nin Sanayileşmesinde Bankaların Rolü," in *Cumhuriyetin 50. Yılında Türkiye'de Sanayileşme Sorunları Semineri* (n.p., 1975): 521-582, p. 539.

<sup>267</sup> Rozaliyev, *Türkiye'de Kapitalizmin Gelişme Özellikleri*, pp. 208-9.

*Şekerbank* and *Turizm Bankası* (Tourism Bank).<sup>268</sup> Perhaps the most important minority share was in IDBT. The General Manager of İş Bankası in the period was Üzeyir Avunduk, who was also at the board of IDBT. IDBT itself would own shares in many companies and provide a crucial support to the industrial bourgeoisie in the 1950s and 1960s when capitalist development accelerated in Turkey.<sup>269</sup>

The profitability of İş Bankası indicates its superiority over the other commercial banks of the period. The table below shows the comparative profits and losses of İş Bankası and the other big private commercial banks like Yapı Kredi and Akbank between 1944 and 1958:

Table 6. Loss and Profits between 1944 and 1958 (Million TL/USD)

Year	İş Bankası		Yapı Kredi		Akbank	
	TL	USD	TL	USD	TL	USD
1944	1.6	1.2	-0.01	-0.007	-	-
1945	2.1	1.6	0.15	0.114	-	-
1946	3.5	1.2	0.73	0.258	-	-
1947	3.0	1.06	0.42	0.149	-	-
1948	3.2	1.1	0.46	0.163	0.02	0.007
1949	3.5	1.2	0.8	0.283	0.16	0.56
1950	3.6	1.27	0.8	0.283	0.18	63.7
1951	2.7	0.95	1.8	0.63	0.9	0.318
1952	3.2	1.1	3.0	1.06	1.2	0.425
1953	5.2	1.8	2.5	0.885	2.4	0.85
1954	7.3	2.58	4.8	1.7	2.9	1.02
1955	8.2	2.9	5.0	1.77	3.3	1.16
1956	7.6	2.69	3.0	1.06	2.7	0.95
1957	8.3	2.93	2.4	0.85	2.1	0.743
1958	9.1	3.22	4.2	1.48	2.3	0.814

Source: Compiled by thesis author from Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 348-9. TL/USD conversions and calculations were made by thesis author.

<sup>268</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 198.

<sup>269</sup> Ibid.

The wholesale price index for 1944 was calculated as below to convert the existing numbers by fixing the prices.<sup>270</sup>

Table 7. Wholesale Price Index According to 1944 Prices

Year	(1944=100)
1944	100
1945	97
1946	93
1947	94
1948	102
1949	110
1950	98
1951	105
1952	106
1953	108
1954	120
1955	129
1956	151
1957	179
1958	206

Source: 1944=100 Index was calculated by thesis author, by using State Institute of Statistics (1938=100) and Department of Commerce (1948=100) indexes. For State Institute of Statistics (1938=100) index, see: Fatma Doğruel and A. Suut Doğruel, *Türkiye'de Enflasyonun Tarihi* (İstanbul: Tarih Vakfı, 2005), p. 160. For Department of Commerce (1948=100) index, see Table 3.

According to the table above, the loss and profits of İş Bankası, Yapı Kredi and Akbank between 1944 and 1958 when converted to 1944 prices were as follows:

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<sup>270</sup> From here onwards, (1944=100) index will be used for conversions and price fixings in the tables including years before 1948. Department of Commerce (1948=100) index will be used for the tables starting from 1948 or following years.

Table 8. Loss and Profits between 1944 and 1958 with 1944 Prices (Million TL)

Year	İş Bankası	Yapı Kredi	Akbank
1944	1.6	-0.01	-
1945	2.16	0.15	-
1946	3.76	0.78	-
1947	3.19	0.44	-
1948	3.13	0.45	0.01
1949	3.18	0.72	0.14
1950	3.67	0.81	0.18
1951	2.57	1.71	0.85
1952	3.01	2.83	1.13
1953	4.81	2.31	2.22
1954	6.08	4	2.41
1955	6.35	3.87	2.55
1956	5.03	1.98	1.79
1957	4.63	1.34	1.17
1958	4.41	2.03	1.11

Source: Conversions were made by thesis author according to Table 6 and Table 7.

The growth of the banks and increase in transaction volume was paralleled by an increase in the number of bank branches. For the big commercial banks, this change can be observed in Table 9:

Table 9. The Number of Branches of İş Bankası, Yapı Kredi and Akbank Between 1944 and 1958

Year	İş Bankası	Yapı Kredi	Akbank
1944	47	1	-
1945	48	6	-
1946	50	6	-
1947	51	8	-
1948	60	14	2
1949	67	18	2
1950	75	24	3
1951	79	34	5
1952	107	42	10
1953	130	52	19
1954	164	64	30
1955	186	86	35
1956	197	99	41
1957	205	106	45
1958	223	117	53

Source: Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 34-5.

In coordination with the transition in the capital accumulation regime and the international regulatory institutions of capitalism, the fiscal and monetary policies also started to be adjusted with the new era. The 1947 amendment to the Protection of the Value of Turkish Currency Law was one such adjustment. This was the first open market regulation specifically geared to foreign capital. With this by-law, currency and profit transfers would be free for foreign capital in the sectors that would not harm Turkish entrepreneurs and exports.<sup>271</sup> With the 1950 legislation, the currency transfer guarantee was recognized as a law, and it was decided that the Ministry of Finance would secure the foreign credits of the private sector up to 300 million dollars. After these small steps, the law on Incentives to Foreign Investments, dated 8 September 1951, systematized the free cycle of capital and its security in an all-encompassing manner.<sup>272</sup>

<sup>271</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 367.

<sup>272</sup> *Ibid.*, p. 368.

The dynamism of the capitalist expansion in the world in the new era was caused by the free circulation of foreign capital. Industrial goods generally were, initially produced in the late capitalized countries by the direct investments of foreign capital. Öztürk remarks that the 1954 regulation on incentives for foreign capital was one of the most liberal legislations on foreign capital.<sup>273</sup> As discussed before, in the late capitalized countries, the capitalist class needs financial assistance to invest in new areas where the state withdraws. In this context, the cycle of foreign capital and the opening of the new investment areas became essential in the establishment of the new banks and in the role of the existing banks.

When discussing the importance of foreign capital to the bourgeoisie who needed financial assistance for investments, one should also mention the role of the Industrial Development Bank of Turkey (IDBT). The industrial activities of the capitalist groups in Turkey increased during the 1950s; investments mainly depended on the credits of the IDBT.<sup>274</sup>

The IDBT was established as directly related to international capitalist institutions such as the World Bank to accelerate capitalist growth and expand capitalist relations through the whole country.<sup>275</sup> The World Bank and the International Bank for Reconstruction and Development (IBRD), both of which were searching for a correspondent in Turkey, were the main factors in the establishment of the IDBT.<sup>276</sup> It would be possible to say that the IDBT was founded in order to facilitate the development of the private sector and transfer resources from the public enterprises.<sup>277</sup> A British official report examining the Turkish economy defines the

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<sup>273</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 65.

<sup>274</sup> *Ibid.*, p. 72.

<sup>275</sup> Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık*, p. 48.

<sup>276</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 45.

<sup>277</sup> Ahmad, *Demokrasi Sürecinde Türkiye*, p. 166.

function of the bank as "the provision of medium and long-term credit for private enterprise, and the encouragement of Turkish investment in private industry, by acting as underwriters in the issue of share capital."<sup>278</sup> Akgüç adds to this list the providing of technical aid to entrepreneurs and organizations.<sup>279</sup>

In late capitalized countries, where capital markets are not developed sufficiently, commercial banks are not adequate for granting long term credits to entrepreneurs. These banks depend on short-term or on-demand savings. This leaves the long-term lending to the investment and development banks.<sup>280</sup> Mesut Erez remarks that the medium and long terms credit and funding needs should be normally met by capital markets. But as capital markets were underdeveloped in Turkey, there was limited scope for private entrepreneurship to sell bonds and stocks. It was more convenient to establish development banks to deal with the long term financing needs of the industry.<sup>281</sup> Tezer Öcal writes that enhancing the investment and development banks had a crucial role in realizing major investments.<sup>282</sup>

If the short-lived Sınai and Maadin Bankası of 1925 which was closed in 1932, is not included, The IDBT can be considered to have been the first real development bank in Turkey.<sup>283</sup> The purposes of the bank were to facilitate the opening of new private enterprises, to expand and modernize existing private industrial organizations, to ease the association of foreign and national private capital to existing or newly establishing private industrial organizations, and to contribute to the development of the capital markets in Turkey.<sup>284</sup> Also, the IDBT was responsible

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<sup>278</sup> Board of Trade, *Economic and Commercial Conditions in Turkey* (London, 1951), p. 18.

<sup>279</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 46

<sup>280</sup> Öcal, *Türk Banka Sistemi*, p. 7.

<sup>281</sup> Mesut Erez, *Bankalar Sistemi ve Devlet Kontrolü* (Ankara: Ayyıldız, 1975), pp. 283-4.

<sup>282</sup> Öcal, *Türk Banka Sistemi*, p. 7.

<sup>283</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 45.

<sup>284</sup> Çivi, *Türkiye'de Bankacılık - Teori, Uygulama ve Sonuçlar*, p. 104; Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık*, p. 48; Erez, *Bankalar Sistemi ve Devlet Kontrolü*,

for providing technical and executive consultancy to the companies, and directed Marshall Aid funds in the name of the private sector.<sup>285</sup>

The IDBT was founded in 1950. Approximately, 75 percent of the foundation capital was provided by commercial banks, especially İş Bankası.<sup>286</sup> Public banks also participated in the bank, either providing long-term credits or creating opportunities for them.<sup>287</sup> Ahmad writes the bank's capital was 125 million liras (44.2 million USD) and provided by big national banks and foreign banks. The IBRD also gave a 9 million USD loan and Marshall aid provided 37 million liras (13 million USD) to the bank.<sup>288</sup> The founder-shareholders of the IDBT read like who's who of the Turkish business and banking sectors.

The IDBT mainly helped the growth of industry in the production of consumer goods before the 1960s and prioritized the financing of investments which were self-sufficient, had an exportation and productive potential, and did not create redundancies.<sup>289</sup> Also the bank led the constitution of a capital market by selling its shareholdings to the public and mediating capital market operations.<sup>290</sup> According to Öztürk, the first important industrial facilities of the many capitalist groups in the 1950s were established by long-term credits from the bank. It functioned as a intermediary institution between industrial organizations, the World Bank and

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pp. 283-4; Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 45; Okçuoğlu, *Türkiye'de Kapitalizmin Gelişmesi*, p. 317; Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 374.

<sup>285</sup> Ahmad, *Demokrasi Sürecinde Türkiye*, p. 167.

<sup>286</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 45.

<sup>287</sup> Türkiye Bankalar Birliği, *50. Yılında Türkiye Bankalar Birliği ve Türkiye'de Bankacılık Sistemi*, p. 6.

<sup>288</sup> Ahmad, *Demokrasi Sürecinde Türkiye*, p. 166. Öztürk notes that according to the principal agreement of the bank, the founders were İş Bankası, Akbank, Garanti Bankası, Yapı ve Kredi Bankası, Ottoman Bank, Selanik Bank, Türk Ticaret Bankası, İmar Bankası, Tutum Bankası, Türkiye Kredi Bankası, Banka Komerçiyale İtalyana, Banko Di Roma, Hollantse Bank, İstanbul Ticaret Borsası, İstanbul Ticaret ve Sanayi Odası, Çukurova Sanayi İşletmeleri, İzmir Pamuk Mensucat, Mensucat Santral, Mecit Duruiz, Cabir Selek, Hazım Atıf Kuyucak, Nuri Dağdelen, Suphi Argon, Hakkı Avunduk and Vehbi Koç. Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 65.

<sup>289</sup> Erez, *Bankalar Sistemi ve Devlet Kontrolü*, p. 284; Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 374.

<sup>290</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 46.

foreign capital.<sup>291</sup> For instance, the IDBT credits helped the renewal and growth of the Çukurova group's main investment facilities in the textiles sector.<sup>292</sup>

In accordance with its mission statement the IDBT channeled information and financial resources to entrepreneurs and industry. The bank was the main provider of the technical information and fiscal resources from the IBRD, the IDA (International Development Association), and the IFC (International Finance Corporation). Also, the European Development Bank and Kreditanstalt für Wieder Aufbau (KfW) were among the bank's sources.<sup>293</sup>

The state gave a profit distribution guarantee to the bank at the beginning, then provided long-term credits or proper environment for long-term credits to the bank in support.<sup>294</sup> The bank's foundation statute stipulated that if the bank could not distribute a minimum 6 percent profit rate, the short-coming part would be compensated by the State Treasury for five years.<sup>295</sup>

The IDBT credits could be for 5-12 years and had 1-3 years non-payment terms.<sup>296</sup> According to credit policies of the bank, the credit demanding group or company would invest at least the demanded amount of credit in value.<sup>297</sup>

It was thought that, with the bank's general perspective and administration, the Turkish industry would fit into proper position in the international division of labor. The internationalization of the bank credits to the industry meant the internationalization of Turkish capital.<sup>298</sup>

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<sup>291</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, pp. 65-6.

<sup>292</sup> Ibid., p. 259.

<sup>293</sup> Akgüç, *100 Soruda Türkiye'de Bankacılık*, p. 46.

<sup>294</sup> Ibid.

<sup>295</sup> Erez, *Bankalar Sistemi ve Devlet Kontrolü*, p. 283.

<sup>296</sup> Ibid., p. 284.

<sup>297</sup> Demokrat Parti, *Yeni İktidarın Çalışmaları 22.5.1950-22.5.1953* (Ankara: Güneş, 1953), p. 218.

<sup>298</sup> Çağlar Keyder, *Türkiye'de Devlet ve Sınıflar* (İstanbul: İletişim, 2007), p. 173.

Entrepreneurship, risk taking, entering into debt, the encouragement of consumption as well as production were the new highlighted aspects of the economy. The DP considered rapid growth the only reasonable option to integrate Turkey into the first world economies. Demirel writes that the DP played a vital role triggering the mental transformation implicit to the capitalist system.<sup>299</sup> The consent for the new hegemony easily gathered momentum when the economy boomed in the first years of the DP power.

### Deposits and Lending during the Rise of Finance

The data between 1950 and 1953 indicate an improvement in the economy in Turkey. The entry of foreign capital, high price policy, and credit opportunities, an increase in the money supply and foreign credits and aid provided 11.1 percent growth rate for the period.<sup>300</sup> Also, according to Artun, cheap money policies by 1950 and deficit financing of state investments by 1953 affected the rapid growth under the DP rule. For the finance sector, cheap money policies and deficit financing caused increases in emission and credits, and the emission and credit increases became in turn resources in the increase in deposits.<sup>301</sup>

The change in the volume of bank deposits in the first years of the DP rule from the DP source is seen below with the year-end (31 December) figures:

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<sup>299</sup> Tanel Demirel, *Türkiye'nin Uzun 10 Yılı (Demokrat Parti İktidarı ve 27 Mayıs Darbesi)* (İstanbul: Bilgi Üniversitesi Yayınları, 2011), p. 142.

<sup>300</sup> Yener Altunbaş, Alper Kara and Özlem Olgu, *Turkish Banking: Banking under High Political Instability and Chronic High Inflation* (New York: Palgrave Macmillan, 2009), p. 11.

<sup>301</sup> Artun, *İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık*, p. 47.

Table 10. Total Bank Deposits between 1949 and 1952 with 1948 Prices (Million TL)

Year	Savings Deposits*		Other Deposits**		Total***	
	TL	Year on Year Growth (YoY) %	TL	YoY %	TL	YoY %
1949	430.1	-	485.4	-	915.5	-
1950	593.8	38	674.3	39	1268.1	38.5
1951	717	20.7	956	41.8	1673	32
1952	845.5	18	1322	38.2	2167.5	29.5

Source: Compiled from Demokrat Parti, *Yeni İktidarın Çalışmaları*, p. 342. Calculations and conversions were made by thesis author. Conversions were made according to table 3.

\* Includes both savings and demand deposits of private persons.

\*\* Includes commercial, industrial sector deposits.

\*\*\* May differ from the following tables. The DP source used the year-end (31 December) figures rather than annual average.

In the same juncture, the volume of bank lending by the year-end figures also showed an increase:

Table 11. Total Bank Lending Between 1949 and 1952 with 1948 Prices (Million TL)

Year	Agricultural Credits		Commercial Credits		Mortgage Credits		Industrial Credits		Total*	
	TL	YoY %	TL	YoY %	TL	YoY %	TL	YoY %	TL	YoY %
1949	312.5	-	847.4	-	71.9	-	-	-	1231.8	-
1950	425.4	36	1123	32.5	88.8	23.5	-	-	1637.2	32.9
1951	627.7	47.5	1342.7	19.5	132.9	49.6	41.6	-	2144.9	31
1952	1026.5	63.5	1673	24.5	198	49	77.6	86.5	2975.1	38.7

Source: Compiled by thesis author from Demokrat Parti, *Yeni İktidarın Çalışmaları*, p. 314.

Calculations and conversions were made by thesis author. Conversions were made according to table 3.

\* May differ from the following tables. The DP source used the year-end (31 December) figures rather than annual average.

Deposits were the main resource of the banks. Since capital is insufficient in developing countries, there is usually a necessity that demand deposits or short-term deposits are transferred by commercial banking as credits to the industrial and other

investment sectors searching for medium or long-term financing.<sup>302</sup> In this context, the increase in savings and demand deposits became an instrument to finance the rapid growth of the private sector itself during the DP years. Below, the distribution of deposits according to their terms and types are displayed:

Table 12. Classification of Bank Deposits According to Their Terms between 1950 and 1958 with 1948 Prices (Million TL)

Year	Time Deposits*		Demand Deposits*		Total**	
	TL	% of Total	TL	% of Total	TL	YoY %
1950	213	17.4	1009	82.6	1222	
1951	245	15.3	1353	84.7	1598	30.7
1952	359	24.1	1130	75.9	1489	-6.8
1953	494	18.7	2145	81.3	2639	77.2
1954	506	18.7	2192	81.3	2698	2.2
1955	520	17.4	2455	82.6	2975	10.2
1956	571	17.8	2620	82.2	3191	7.2
1957	554	16.7	2761	83.3	3315	3.8
1958	571	18.2	2551	81.8	3122	-5.8

Source: Compiled by thesis author from Öcal, *Türk Banka Sistemi*, p. 48. Calculations and conversions were made by thesis author. Conversions were made according to table 3.

\*Time and demand deposits comprise official, commercial, banks and savings deposits.

\*\*The totals for the years 1950-1952 do not match exactly the figures provided in table 10 by the DP source. The difference could be because of averaging rather than taking year-end figures. Average figures will be used in the following tables.

When considered with Table 13 below, the increase in demand deposits was mainly from the increase in savings deposits:

<sup>302</sup> Öcal, *Türk Banka Sistemi*, p. 112.

Table 13. Distribution of Deposit Types between 1949 and 1958 (%)

Year	Savings	Commercial	Official	Banks
1949	49.9	26.5	20.3	3.3
1950	48.7	27.3	19.3	4.7
1951	45.3	26	22.5	6.2
1952	41.4	24.5	26.1	8
1953	41.3	27.6	22.9	8.2
1954	44.7	26	24.1	5.2
1955	45.7	26.2	23.9	4.2
1956	48.1	25.3	22.9	3.7
1957	53.3	22.8	21.2	2.7
1958	53.3	22.4	21.5	2.8

Source: Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, p. 47.

Akgüç writes that the ascendant trend in savings deposits relates to four basic developments: Increase in per capita income, savings became popular, the spread of banks and their branches throughout the country, and the expansion of the domestic market. Therefore, it would be plausible to say that the rise of private sector banking and the banks' competitive marketing methods such as prizes to collect especially demand deposits were effective in increasing total savings deposits. When Table 13 is analyzed, banks deposits show a falling tendency. This is because the downfall in general economy after 1953-1954 restricting this type of deposits, while the ratio of savings deposits generally increased during the period, despite a brief slump in the middle boom years 1952-1953.<sup>303</sup>

Parallel with the increasing deposit volume, the bank branch activity also showed upward progress. Moreover, the spread of bank branches was linked to the deposits potential. The table below lists the total deposits in the three big private banks between 1944 and 1958 with 1944 prices:

<sup>303</sup> Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, pp. 47-8.

Table 14. Deposits per Branch for İş Bankası, Yapı Kredi and Akbank between 1944 and 1958 with 1944 Prices (Million TL)

Year	İş Bankası		Yapı Kredi		Akbank	
	Per Branch	Total	Per Branch	Total	Per Branch	Total
1944	3.6	169.2	6.2	6.2	-	-
1945	3.9	187.2	2.3	13.8	-	-
1946	4.3	215	4.1	24.6	-	-
1947	4.3	219.3	4.7	37.6	-	-
1948	3.8	228	3.9	54.6	1	2
1949	3.1	207.7	3	54	1.1	2.2
1950	3.7	277.5	3.3	79.2	2.6	7.8
1951	4.4	347.6	3.4	115.6	3.8	19
1952	4.3	460.1	3.8	159.6	3.4	34
1953	4.5	585	4.8	249.6	3.7	70.3
1954	3.5	574	4	256	2.6	78
1955	3.4	632.4	3.1	266.6	2.2	77
1956	3.7	728.9	3.1	306.9	2	82
1957	3.5	717.5	3.1	328.6	1.9	85.5
1958	3.1	691.3	2.4	280.8	1.5	79.5

Source: Compiled by thesis author from Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 108-9. Calculations and conversions were made by thesis author. Conversions were made according to table 7.

To minimize the effect of price increases after 1950, the comparative deposit volumes of İş Bankası, Yapı Kredi, and Akbank to total banking sector deposits in the DP rule were calculated with 1948 prices:

Table 15. Percent of Total Deposits in İş Bankası, Yapı Kredi, and Akbank to Total Banking Sector Deposits between 1950 and 1958 with 1948 Prices (Million TL)

Year	İş Bankası		Yapı Kredi		Akbank	
	% of Total Banking Sector Deposits	Total Deposits	% of Total Banking Sector Deposits	Total Deposits	% of Total Banking Sector Deposits	Total Deposits
1950	23.4	286	6.6	81.6	0.6	8
1951	21.1	337.4	7	112.2	1.1	18.4
1952	29.7	442.4	10.3	153.4	2.2	32.6
1953	20.7	546.7	8.8	233.2	2.5	65.7
1954	18	486.4	8	217	2.4	66.1
1955	16.7	498	7	210	2	60.6
1956	15.4	492.5	6.5	207.3	1.7	55.4
1957	12.3	410	5.6	187.7	1.5	48.8
1958	11	342.2	4.4	139	1.2	39.3

Source: Compiled by thesis author from Öcal, *Türk Banka Sistemi*, p. 48. Calculations and conversions were made by thesis author. Conversions were made according to Table 3 and 14.

The DP governments thought bank credits to be essential in increasing production. The first role of banks in financing industry was to give short-term management credits and medium and long-term investment credits to the public and private sectors.<sup>304</sup>

The DP maintained that their credit policies were to provide all kind of credits needed by entrepreneurs for new investments or upgrades in facilities. According to the DP, the lack of or insufficient credits before the DP rule had caused the non-optimal use of resources. It now took decisions favoring establishing new credit institutions, expanding existing ones and decreasing credit costs.<sup>305</sup>

When it is considered that the rise of industrial bourgeoisie corresponded to the years of DP rule, we can still expect the burden of industrial investments to be on the state in the early years of the DP government. Indeed, for the 1949-1952 period, the share of industrial credits granted by the public sector in overall credit volume

<sup>304</sup> Abaç, "Türkiye'nin Sanayileşmesinde Bankaların Rolü," p. 549.

<sup>305</sup> Demokrat Parti, *Yeni İktidarın Çalışmaları*, p. 313.

surpassed the share granted by the private sector. The balance was only reached in the 1953-1960 period.

Table 16. The Share of Total Public and Private Sector Industrial Credits in General Credits Volume between 1949 and 1958 with 1948 Prices (Million TL)

Year	General Credits Volume*		The share of total industrial credits of private sector	The share of total industrial credits of public sector
	TL	YoY %	%	%
1949	1625	-	3.6	10.5
1950	2353	44.8	3.6	9.5
1951	2895	23	4.5	7.9
1952	3853	33	5.2	5.9
1953	4755	23.4	6.4	5.1
1954	5315	11.7	12.5	5.0
1955	5735	8	7.9	7.3
1956	5789	0.9	7.5	7.1
1957	6499	12.2	7.1	7.0
1958	6379	-1.84	7.6	7.1

Source: Compiled by thesis author from Abaç, "Türkiye'nin Sanayileşmesinde Bankaların Rolü," p. 579. Calculations and conversions were made by thesis author. Conversions were made according to table 3.

\*General Credits Volume comprises here bank credits and indirect credits of the Central Bank.

When considered general credits volume above includes bank credits and indirect credits of the Central Bank, the significant growth above in general credits volume on a year on year basis was also related to the government use of Central Bank funds to pursue economic growth in the early 1950s.<sup>306</sup>

The change in the role of credits to private industrial sector regarding the bank and total industrial credits is listed below, when agriculture-dependent rapid growth slowed down after 1953, the share of industrial credits began to rise in investments, according to Selçuk Abaç's calculations. In class relations, this parallels with the expansion of industrial bourgeoisie fractions.

<sup>306</sup> Nevin Coşar, "Demokrat Parti Dönemi Maliye Politikası," *Ankara Üniversitesi SBF Dergisi* 60, no. 1 (2005): 29-58, p. 34.

Table 17. Private Sector Total Industrial Credits between 1949 and 1959 with 1948 Prices (Million TL)

Year	Total Bank Credits	Total Industrial Credits (Short + Medium + Long Term)	Total Industrial Credits in Total Bank Credits %
1949	972	59	6.1
1950	1341	85	6.3
1951	1726	129	7.5
1952	2520	200	6.8
1953	3206	307	8
1954	3653	666	18.2
1955	3982	452	11.3
1956	3976	314	8
1957	4484	462	10.3
1958	4326	487	11.2

Source: Compiled by thesis author from Abaç, "Türkiye'nin Sanayileşmesinde Bankaların Rolü," p. 577; Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 226-7. Calculations and conversions were made by thesis author. Conversions were made according to table 3.

Öcal's calculation below, on the other hand, is related to the sectoral distribution of total bank credits during the DP rule until 1958. According to the table, bank credits were mainly made available to private sector as shown by all the columns except the first two, and the last column. In addition, the private sector was an important component in the public banks credits although not directly apparent from the table. Öcal writes that the handicrafts and agricultural credits were mainly made available by public banks, instead of privately owned ones:<sup>307</sup>

<sup>307</sup> Öcal, *Türk Banka Sistemi*, p. 85.

Table 18. Sectoral Distribution of Total Bank Credits (Public and Private Sector Banks) between 1950 and 1958 with 1948 Prices (Million TL)

Year	Public Fiscal Sector	Public Economic Sector	Agricultural Credits	Industrial Credits	Residence Building Credits	Handicraftsman Credits	Commercial Credits	Interbank Credits	Total	Private Sector Share in Total %
1950	165	-	425	-	41	3	680	27	1341	86
1951	168	9	618	17	66	6	815	27	1726	88
1952	229	17	1009	38	113	10	1084	20	2520	90
1953	318	17	1117	63	160	20	1486	25	3206	90
1954	355	37	1250	95	197	31	1654	34	3653	88
1955	379	133	1209	109	272	45	1806	29	3982	86
1956	384	217	1266	95	258	43	1677	36	3976	84
1957	534	635	1197	93	248	42	1700	35	4484	73
1958	481	639	1060	88	229	46	1735	48	4326	73

Source: Compiled by thesis author from Öcal, *Türk Banka Sistemi*, p. 84. Calculations and conversions were made by thesis author. Conversions were made according to table 3.

As mentioned above, commercial banks have an important role in the rise of the productive bourgeoisie in late capitalized countries where specialization banks are absent or insufficient in number. This general rule also matches Turkey where, besides the IDBT, specialization banks were negligible for big business and their investments. Private sector banking became one of the main sources of business in finding credits for its own investments. The distribution of total credits volume between the big private banks is seen below, as well as the ratio to overall banking credits and year on year growth:

Table 19. Total Credits between 1944 and 1958 with 1944 Prices (Million TL)

Year	İş Bankası			Yapı Kredi			Akbank		
	TL	YoY %	Total Credits of the Banking Sector %	TL	YoY %	Total Credits of the Banking Sector %	TL	YoY %	Total Credits of the Banking Sector %
1944	65	-	18	1.3	-	0.3	-	-	
1945	104	60	20.3	8	515.4	1.5	-	-	
1946	128	23	17.4	15	87.5	2	-	-	
1947	146	14	14.4	23	53.3	2.2	-	-	
1948	133	-8.9	13	28	21.7	2.7	4	-	0.3
1949	128	-3.8	13.1	30	7.1	3	5	25	0.5
1950	160	25	12	48	60	3.6	12	140	0.9
1951	172	7.5	10.2	67	39.6	4	22	83.3	1.3
1952	321	86.6	13	89	32.9	3.6	43	95.4	1.7
1953	464	44.5	14.6	169	89.9	5.3	81	88.3	2.5
1954	413	-11	11.4	167	-1.18	4.6	74	-8.6	2
1955	441	6.8	11.2	169	1.1	4.3	76	2.7	1.9
1956	392	-11	10	185	9.4	4.7	60	-21	1.5
1957	443	13	10.1	209	13	4.7	64	6.6	1.5
1958	436	-1.6	10.3	193	-7.65	4.6	60	-6.2	1.4

Source: Compiled by thesis author from Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 226-7. Calculations and conversions were made by thesis author. Conversions were made according to table 7.

According to Table 19, rapid growth in the early 1950s affected the banking sector positively. It could be observed that İş Bankası, Yapı Kredi, and Akbank credits peaked on a year by year basis between 1950 and 1954. Another outcome of Table 19 is the economic recession after 1954 slowed down the pace in the banking sector. Nevertheless, it continued to expand with the establishment of new banks even after 1954.

Due to the capitalist expansion during the 1950s, the boom in the finance sector was backed up with a rise in private sector banking. The establishment of new banks in Turkey increased both the volume of deposits and the use of credits and thus, money circulation. In return, big business found itself a new source to finance its industrial investments independently from the state. This, also created a moral hazard problem when banks were affiliated with specific businesses in which they had an ownership share, or vice versa. This partially explains the coming of the 1958 Banking Law, which tried to solve this problem partially. The next table shows the increase in bank deposits, credits, capital and the number of the banks during these years:

Table 20. Deposits in Banks, Credits, Capital between 1950 and 1958 with 1948 Prices and the Number of Banks (Million TL)

Year	Deposits in Banks		Bank Credits		Capital		The Number of Banks
	TL	YoY %	TL	YoY %	TL	YoY %	
1950	1222	-	1341	-	698	-	44
1951	1598	30.7	1726	28.7	791	13.3	43
1952	1489	-6.8	2520	46	906	14.5	45
1953	2639	77.2	3206	27.2	1281	41.3	49
1954	2698	2.2	3653	13.9	1324	3.3	52
1955	2975	10.2	3982	9	1327	0.2	56
1956	3191	7.2	3976	-0.15	1285	-3.16	58
1957	3315	3.8	4484	12.7	1101	-14.3	60
1958	3122	-5.8	4326	-3.5	1091	-0.9	62

Source: Compiled by thesis author from Zeyyat Hatiboğlu, *Türkiye'de Bankacılık* (İstanbul: Sermet, 1964), pp. 16, 31-32; Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, pp. 69-70; Yüzgün, *Cumhuriyet Dönemi Türk Banka Sistemi*, pp. 226-7. Calculations and conversions were made by thesis author. Conversions were made according to Table 3.

When the increases in deposits, credits, and banks capital are calculated with fixed 1950 prices, the development index was as follows:

Table 21. Development Index of Deposits, Credits, Capital with Fixed Prices

Year	Deposits	Credits	Capital
1950	100	100	100
1951	130	129	113
1952	122	188	130
1953	216	239	184
1954	221	272	190
1955	243	297	190
1956	261	296	184
1957	271	334	158
1958	255	323	156

Source: Calculations and conversions were made by thesis author. Conversions were made according to Table 20.

Table 21 indicates a gradual growth in deposits, credits and capital in the banks between 1950 and 1958. As can be seen in the other tables in the chapter, the growth in the banking sector started with the proliferation of private sector banking

after the Second World War. The growth was checked with year on year basis, and with fixed prices, and as a result of this, it can be said that liberal economic policies after the Second World War favored private sector banking. Therefore, the increase in the number of banks so in the amount of credits helped the bourgeoisie financetheir investments and grew bigger.

Then how can we sum up the credit policies of the DP? Nevin Coşar remarks that the DP implemented a loose credit policy. Lowering interest rates in 1951 caused an increase in demand and volume of credits. In addition, imports received a boost. However, when imports declined due to the lack of foreign reserves in the second part of 1950s, the DP did not contract the credits volume until the economic crisis became a visible factor on the political area. According to Coşar, the expansion of credits incited inflation and speculation.<sup>308</sup>

In most of the 1950s, expansionary money and credit policies were implemented to support private entrepreneurship, satisfy merchants and peasants and to supply the liquidity necessary for the increased economic activity and accelerated infrastructural services.<sup>309</sup> Such an environment of economic growth and expansion was naturally suitable for the flourishing of banking activities, and private sector banking saw its fair share.<sup>310</sup>

### Trade Deficits and the Economy after 1953

Foreign trade deficits were a continuous problem of economic policies in the 1950s. The economic liberalization of the 1950s needed to be compensated for by foreign financing. However, by 1953, foreign currency resources began to run out.

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<sup>308</sup> Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 35.

<sup>309</sup> Çivi, *Türkiye'de Bankacılık - Teori, Uygulama ve Sonuçlar*, p. 102.

<sup>310</sup> *Ibid.*, p. 103.

This directly affected importation. Between 1953 and 1958, the imports regime was tightened by measures taken by the government. Exportation was also in fluctuation. In these conditions, the general properties of foreign trade in the DP period were as follows: Exportation, which was predominantly agriculture-driven and mainly depended on weather conditions, and, together with foreign aid and credit opportunities, the economy boomed in the first part of the 1950s. When the rapid growth decreased significantly after 1954, import substitution was introduced to accelerate industrialization. However, because of the lack of a proper foreign trade regime, the result was chronic foreign trade deficits during the period.<sup>311</sup>

In the foreign trade area, the process of dismantling the protective measures started with the 6-7 September devaluation. Despite the rise in export income thanks to the rapid and fairly advanced liberalization in foreign trade, imports rose much higher and the balance of trade went down from surplus to deficits by 1947. Foreign trade deficits became permanent after 1947-1948. When compared to the planned economy conditions of the single-party period, the export-import ratio was turned upside down in the post-war era.<sup>312</sup>

The new importation regime by the DP in 1950 expanded the freedom in foreign trade and all protective acts were mainly abolished except that on customs. This remained so until the restrictive by-law in September 1953. When the Korean War ended in 1953, the terms of world trade turned against primary/agricultural goods, causing a decrease in Turkish export income. In 1950, the deficit rose to 22.4 million dollars, and in 1952, the deficit was 193 million dollars. The total estimated external deficit between 1947 and 1953 was 559.5 million dollars and efforts were

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<sup>311</sup> Haydar Kazgan, Murat Öztürk and Murat Koraltürk, *Türkiye Cumhuriyet Merkez Bankası* (İstanbul: Creative Yayıncılık, 2000), pp. 141-2.

<sup>312</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 361.

made to finance it through external sources. The ratio of the capital accumulation to the national product reached 10.5 percent in average, but 18 percent of the accumulation was financed by external deficits.<sup>313</sup> Financing rapid growth was a problem shared by the state and business. With the imports increasing and the export income declining, the trade deficit continued to expand and the state brought back the statist era's import substitution measures in response to the lack of sufficient foreign capital.<sup>314</sup> The table below shows the export-import ratios during the statist era, the Second World war, the relatively liberal economy years after the war, and the foreign exchange crisis years after 1953:

Table 22. Export-Import Ratio in Times of Economic Shifts, 1930-1961 in Percentage %

	1930-1939	1940-1946	1947-1953	1954-1961
Export/Import	112	153	80	74

Source: Compiled by thesis author from Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 361.

In the second half of the 1950s, foreign constraints and negative movements in world prices began to impact economic conditions in Turkey. Keyder writes that the government departed from free market ideas at least in terms of international specialization. Instead, the DP adopted an inflationist-populist route in order to postpone the ultimate economic crisis. In the meantime, the dissatisfaction of the urban bourgeoisie increased because of policies favoring the agricultural sector. The bourgeoisie's demands were compensated by new protectionist and import substituting policies.<sup>315</sup>

<sup>313</sup> Ibid., p. 370.

<sup>314</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 64.

<sup>315</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 160.

When the growth rate decelerated after 1953, it was understood that the external balance could not be achieved with a liberal trade regime. The first action, according to Boratav, was to abolish the liberal foreign trade and exchange regime in September 1953 by enactment no. 4/1360-1361. But more important was the foreign trade regime implemented in July 1954.<sup>316</sup> Until this policy, the government withdrew from liberal foreign trade and adopted some statist protectionist measures.<sup>317</sup> In July 1954, the government order no. 4/3321 brought still more new measures and limits to foreign trade policies and set the new trend for the upcoming years. After this date, the foreign trade regime was ruled by government enactments renewed in every year until 1958. Thus, by 1958, imports decreased to 2.5 percent of GNP compared to 9.5 percent in 1952. Meanwhile, the non-agricultural bourgeois fractions took advantage of the limitation by investing in import substitution geared towards the domestic market.<sup>318</sup> Under the substitution regime, constraints on importation provided sufficient incentives to the industrialists to produce for the domestic market. Inflation and protectionism were a useful combination in increasing industrial incomes in the short term.<sup>319</sup>

The 1954 law on incentives for foreign capital provided freedom to foreign capital in profit and capital transfers; it also lessened governmental formalities. But foreign capital did not become an important external deficit-financing source in this period. Thus, Central Bank funds were seen as a last option for the DP government.<sup>320</sup> The DP government, insisting on rapid growth, reacted to the

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<sup>316</sup> Boratav, *Türkiye İktisat Tarihi 1908-2007* (Ankara: İmge, 2009), p. 110.

<sup>317</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 167.

<sup>318</sup> Çağlar Keyder, "Türkiye Demokrasisinin Ekonomi Politikası," in *Geçiş Sürecinde Türkiye*, eds. Irvin Schick and Ahmet Tonak (İstanbul: Belge, 1990), p. 58.

<sup>319</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 167.

<sup>320</sup> Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 34.

increase public expenditures with short-term funds of the Central Bank.<sup>321</sup> Appealing to Central Bank resources in this way became a government policy during its rule. As a result of this, the economic imbalance deepened and was reflected in rapid inflation, foreign trade deficits and increase in foreign debts after 1953.<sup>322</sup> There was not much of an interest in coordinating economic policies in the 1950s either. The unplanned and uncoordinated decisions resulted in a decrease in growth rates to 2-3 percent in 1958 and an increase in inflation rates.<sup>323</sup> The problem of funding the external debt caused an economic crisis, which peaked in 1958 with a high-rate devaluation.<sup>324</sup>

Inflationist financing comprised the rapid increase of agricultural credits, price supporting programs and public investments. In addition public works and urban development were financed through Central Bank monetization. As a result, prices doubled between 1955 and 1959.<sup>325</sup> The increase in money supply between 1950 and 1958 is seen below:

Table 23. Currency Circulation Between 1950 and 1958 (Million TL)

Year	Currency
1950	900
1951	1048
1952	1146
1953	1333
1954	1379
1955	1805
1956	2322
1957	2936
1958	3052

Source: Compiled by thesis author from Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 35.

<sup>321</sup> Ibid., p. 54.

<sup>322</sup> Türkiye Bankalar Birliği, *50. Yılında Türkiye Bankalar Birliği ve Türkiye'de Bankacılık Sistemi*, pp. 6-7.

<sup>323</sup> Yener Altunbaş, Alper Kara and Özlem Olgu, *Turkish Banking*, p. 11.

<sup>324</sup> Keyder, "Türkiye Demokrasininin Ekonomi Politikası," p. 58.

<sup>325</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 167.

In a situation with importation difficulties, expansionary money, and credit policies backfired as suppression in inflationary demand. Between 1950 and 1954, the increase in money supply was compensated by the increase in internal production and foreign aid. During this time, price increases were moderate. But after 1954, the increase in money supply accelerated due to the lack of foreign aid. In addition, the slowdown in the increase in real incomes and decrease in the share of development expenditures in total funds incited the rise of inflation.<sup>326</sup> Average price increases were 5 percent between 1950 and 1953, but they increased to 14.9 percent from 1953 to 1959.<sup>327</sup> Keyder writes that the inflationist policies acted as eye-wash to hide the decelerated growth speed, but that they also resulted in rapid capital accumulation in the industrial sector.<sup>328</sup>

Öztürk writes that the state's tendency to support industrial investments in this era was one of the indications of the rise of the industrial bourgeoisie. According to him, this took place in two ways: One of them was to keep the price of the products of the state enterprises lower for the private sector where they would be used as inputs. The other one was the cooperation and association between the state enterprises and the private sector. Subsidiary support increased in the 1950s, when a group of new public enterprises were established to produce intermediate goods. This was visible in the increasing share of state enterprises in public investments. The average share of state enterprises in public investments was 24 percent between 1950 and 1954. For the 1955-1959 period, it increased to 29 percent. Thirty percent of the

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<sup>326</sup> Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 35.

<sup>327</sup> Ibid., p. 36.

<sup>328</sup> Keyder, *Türkiye'de Devlet ve Sınıflar*, p. 167.

investments were financed by treasury bonds.<sup>329</sup> The state enterprises provided the state insurance to the private entrepreneurship and financial convenience.<sup>330</sup>

The result of the state support could be seen in the increased number of the big industrial facilities. Öztürk notes that the big facilities in Turkey were established mainly between 1945 and 1960. According to 1958 statistics, the number of the facilities employing 50 or more workers in six big cities was 367. A study on half of these facilities, the foundation dates for 126 of which could be established, was that three quarters of the analyzed group were founded between 1945 and 1960. In addition, their owners had previously been in the trade sector before going into industry.<sup>331</sup> The capitalist expansion took place countrywide. Hüseyin Şeyhanlıoğlu writes that the economic growth between 1950 and 1954 accelerated the rise of capital groups in Anatolia. The resulting capital transfers provided the establishment of strong enterprises.<sup>332</sup>

#### Economic Recession and the 1958 Banking Law: The Demise of Private Banks

As discussed above, Yalman notes that there was no transformation in the power relations in terms of capitalist class relations after the Second World War.<sup>333</sup> I also discussed that there were some turning points in the political arena and in economic policies. The agency shifts and their reflections at the politics and economy did not make for a major transformation in the relations between dominant and subordinate classes, but accelerated the capital accumulation process and directed the flow of

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<sup>329</sup> Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 37.

<sup>330</sup> Öztürk, *Türkiye'de Büyük Sermaye Grupları*, p. 67.

<sup>331</sup> Ibid.

<sup>332</sup> Hüseyin Şeyhanlıoğlu, *Türk Siyasal Muhafazakarlığının Kurumsallaşması ve Demokrat Parti* (Ankara: Kadim, 2011), p. 269.

<sup>333</sup> Galip Yalman, "Tarihsel Perspektiften Türkiye'de Devlet ve Burjuvazi: Rölativist bir Paradigma mı Hegemonya Stratejisi mi?," *Praksis* 5 (2002): 7-23, p. 13.

capitalist production. In this context, the disposal of the bureaucracy's power in the 1950 elections and the beginning of the DP rule, which could be seen as a victory of the bourgeoisie, was a threshold to augmenting the liberal economy politics and expansion in the finance area. Another important year concerning the economy and finance area during the period was 1958, when an austerity package and a new Banking Law were implemented during the downturn in the economy.<sup>334</sup>

As mentioned above, the recession in the second part of the 1950s peaked in 1958. With the rise of internal and external difficulties to the increase of money and credit supplies, the DP government brought constraints to agricultural credits and the Central Bank raised the interest rate to decrease the credit volume.<sup>335</sup> Devaluation and limitations on the volume of credits were the main measures to re-regulate the economic and fiscal conditions.<sup>336</sup> Besides, the government determined a maximum cap on banks' credits. The National Protection Law was reinstated and the Ministry of Trade was authorized to determine the price of certain goods. When the 1958 limitations and interest rate rises did not show results, IMF stability measures were put in charge.<sup>337</sup> This recession led to the bankruptcy of 11 banks and the nationalization of two banks between 1959 and 1962. Small-scale and local banks struggled to collect the credits due to the recession in the economy. Also, deceleration in the increase of deposits and trust issues made the banks vulnerable to the recession and became one of the main causes of their bankruptcy.<sup>338</sup>

The 1958 Banking Law was proclaimed when the government decided that the Law No. 2999 (dated 1936) was not sufficient to control the private banking

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<sup>334</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 360.

<sup>335</sup> Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 37.

<sup>336</sup> Yüzgün, "Türk Bankacılığının Tarihsel Gelişimi," p. 168.

<sup>337</sup> Coşar, "Demokrat Parti Dönemi Maliye Politikası," p. 37.

<sup>338</sup> Yüzgün, "Türk Bankacılığının Tarihsel Gelişimi," p. 168.

sector.<sup>339</sup> Öcal writes that this law had abstained from a serious intervention in the banks. However, the 1958 law was more eager to intervene in banking operations.<sup>340</sup> The 1958 law was published in 2 July 1958 as Law No. 7129 and was organized in a different manner from the 1936 Banking Law. It reflected that banking operations were not only a commercial activity, but were also dependent on public order and public interest.<sup>341</sup> The 1958 Banking Law protected the interests of banks' depositors, as in the 1936 law, but it also had a purpose to help to execute a certain economy policy. In this period, state intervention in the banks was not only protective, but administrative at the same time.<sup>342</sup>

Akgüç remarks that the law aimed to regulate banking operations in the public interest and serve the growth of the national economy. Thus, the 1958 law had two topical regulations: The first group of provisions aimed to secure the rights and assets of deposit owners, while the other group of provisions were about organizing the banks' credit policies in the general economic interests of the people.<sup>343</sup> Provisions regarding deposits were regulated between Articles 24 and 33. As per Article 27, owners of the savings deposits were to be preferential creditors, to the extent of an amount equivalent to 50 percent of their deposits. The ratio was 40 percent in the former law. Article 28 determined maximum ratios for savings deposits for banks. This article was important because capital adequacy requirement favored the stronger banks. According to Article 28, total savings deposits to be accepted by any bank could not exceed the ratios given in the article to the total of its capital paid up or actually allocated to Turkey and its reserves. The article estimates

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<sup>339</sup> Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, p. 45.

<sup>340</sup> Öcal, *Türk Banka Sistemi*, p. 28.

<sup>341</sup> Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, p. 45.

<sup>342</sup> Öcal, *Türk Banka Sistemi*, p. 28; Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, pp. 380-2.

<sup>343</sup> Akgüç, *Cumhuriyet Döneminde Bankacılık Alanında Gelişmeler*, p. 45.

seven-fold for banks whereof the said total was between two million and five million liras, but 15-fold for banks whereof the said total was over 50 million liras.<sup>344</sup> Credit operations were regulated between Articles 38 and 48. A new credit regime for banks was revealed here. Article 38 and 39 designated credit limits for banks. According to Article 38, a bank could not directly extend to any juristic person a loan amount exceeding 10 percent of its total paid-up capital or capital actually allocated to Turkey plus reserve funds, but in the case of loans extended for utilization in industry, mining, power, public works, transport and exports, this limit could be raised to 25 percent.<sup>345</sup> However, the article stipulated that operations such as loans extended by banks to their organizations engaged in industry, mining, public works, power, transport and exports whereof they own at least 25 percent of the capital, and all transactions between banks were not subject to the restrictions.<sup>346</sup> According to Article 39, credits by banks to institutions in the capital whereof they had participated could not exceed 20 percent of the total amount of the bank's paid-up capital, but the above mentioned provisions of Article 38 were reserved.<sup>347</sup> The law defined the banks as semi-public big financial institutions working for the general public interest and advancement of the national economy and suggested that bank credits should be administrated towards the general economic development and growth of the country.<sup>348</sup>

The preamble of the 1958 Banking Law remarks that the necessity for a new law emerged from the flaws in provision on deposits and credits in the 1936 Banking

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<sup>344</sup> Republic of Turkey, *T.C. Resmi Gazete*, no. 9944, 2 July 1958.

<sup>345</sup> *Ibid.*

<sup>346</sup> *Ibid.*

<sup>347</sup> *Ibid.*

<sup>348</sup> Öcal, *Türk Banka Sistemi*, pp. 27-8.

Law.<sup>349</sup> Also, economic and financial growth in Turkey in the 1950s, and international trend on readjusting the existing rules on banking triggered a change in the banking law towards more suitable regulations. Apart from deposits and credit operations, the 1958 Banking law consisted of nine parts: Preliminary Provisions, Formation of Banks, Organization and Organs, Total Available Funds, Legal Provisions and Reserves, Enterprises and Participations, Statements of Accounts and Balance Sheets, Miscellaneous Provisions and Control, Penal Clauses, and Protected and Abrogated Provisions. The main concern in the provisions of the new law was the progress of national economy. Provisions in the 1936 law that did not contradict in this manner were kept in the 1958 law. The others were either changed or brought restrictions and increase the governmental control. Yet, as Article 57 implied, a "Union of Banks" would be established for the purpose of insuring the development of the banking profession, securing solidarity between banks, and adopting and applying measures to suppress unfair competition.<sup>350</sup>

Moral hazard in the banking sector was an issue for the government, and was considered as a digger to the economic progress. Provisions regarding participation in the law were aimed to minimize the issue. The former (1936) law had not brought any restrictions to capital allocated by banks to their participations. Thus, enterprises, of which at least 51 percent of their capitals were owned by banks were exempt from the 10 percent credit limits. The preamble of the 1958 law remarks that this was exploited by some banks by transferring deposits to finance their own enterprises.

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<sup>349</sup> Türkiye Bankalar Birliği, *Cumhuriyet Dönemi Bankalar Kanunları ve İlgili Yasal Düzenlemeler* (İstanbul: TBB, 1998), pp. 47-55.

<sup>350</sup> Republic of Turkey, *T.C. Resmi Gazete*, no. 9944, 2 July 1958.

Banks were supposed to exist for public service, and could not act as a private financial institution.<sup>351</sup>

Article 48 stated that the general total of the capital to be allocated by banks to the institutions should not exceed 10 percent of their total paid-up capital and reserves. However, as in the credits section, there were exceptions. Banks' participations and enterprises engaged in industry, mining, power, public works, transport and exports, and necessary for the economic development of the country were exempt from this provision. When considered with the provisions on deposits and credits, Article 48 gives an answer to the proliferation of private sector banking in Turkey. Nevertheless, the 1958 law brought measures to prevent uncontrolled expansion in the finance field, which in fact favored the big business as exemptions and exceptions expressed in the law. The new law was met by the biggest private bank and finance capital for the period, İş Bankası, with importance. The bank also translated the law to English.<sup>352</sup>

Öcal writes that the banks also increased the investments level by coupling the financing with the immediate need of the investor, and in doing so they help disperse capital broadly.<sup>353</sup> Thus, though he did not mention it directly, Öcal discusses the multiplier effect brought about by banks.

An important pillar of the conglomerate system of Turkey was the banks. The banking law of 1936 put some restraints on this system. But the law of 1958 made life easy for this type of organizations. According to the law, banks would be established as a joint stock companies (Article 3) and could give unlimited credits to the groups that had more than 25 percent capital share in the bank (see above, Article

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<sup>351</sup> Türkiye Bankalar Birliği, *Cumhuriyet Dönemi Bankalar Kanunları ve İlgili Yasal Düzenlemeler*, pp. 47-55.

<sup>352</sup> İş Bankası, *Banking Law of Turkey* (Ankara: İş Bankası, 1958).

<sup>353</sup> Öcal, *Türk Banka Sistemi*, pp. 3-4.

38).<sup>354</sup> The law nevertheless kept the door open for moral hazard, and on a larger scale than before.

Because of the small share of auto financing in the investments of companies and the use of credits in investments, banks had a central role in this system. They provided the transfer of small savings to the conglomerates.<sup>355</sup> The moral hazard appeared when both the bank and the conglomerate belonged to the same group or even worse, had cross-shareholdings.

The rise of private sector banking naturally brought and accelerated competition in the banking sector. If one looks at the newly founded private banks of the period, one sees that most of the banks were founded under the auspices of capital groups. Yapı Kredi was under the control of the Çukurova and Sabancı groups until the 1980s. Akbank was part of the Sabancı group. Pamukbank was established as an associate bank in the Çukurova group. Garanti Bankası was under the control of the Koç and Sabancı groups until 1977. Kocabaşoğlu writes that the birth of private sector banking and conglomerate banking overlapped, and that the first seeds of conglomerate banking were planted in the 1950s.<sup>356</sup>

Kocabaşoğlu states that the preamble of the 1958 Banking Law explains the rise of conglomerate banking in Turkey. As mentioned before, the 1958 Law aimed to regulate and set limit to the relations between the banks and their associations. The 1936 Banking Law had recognized the necessity of association as a pre-condition for the banks given the lack of capital margins. It had not brought constraints to the relation between the bank itself and its associations. The 1958 Law's preamble remarked that this preexisting condition was exploited by the banks and that the

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<sup>354</sup> İlhan Tekeli, "Türkiye'deki Şirketlerin Gelişimi ve Kapitalin Yoğunlaşma Süreci," in *Cumhuriyet Dönemi Türkiye Ansiklopedisi* (İstanbul: İletişim, 1985): 2386-96, p. 2391.

<sup>355</sup> Ibid.

<sup>356</sup> Kocabaşoğlu, *Türkiye İş Bankası Tarihi*, p. 386.

banks used their deposits to enrich their associations. The overlap of the rise of the private sector banking and conglomerate banking was not a coincidence under these circumstances.<sup>357</sup> As a result of the new law only those banks remained, that had strong capital adequacy and that were backed by strong groups which could afford the caps and lending.

This chapter focused on the expansion of the banking sector after the Second World War and examined the rise of private sector banking and its place in the socio-economic developments in Turkey. A major characteristic of the banking sector was the rise of private sector banking in the post-war period. With the expansion of finance sector, deposits and credits increased to finance the investments. When the rapid growth was over after 1954, the government implemented the ISI (Import Substitution Industrialization) policy to balance the external deficits. Together with the transfer of savings and allocation of credits by banks especially to affiliated businesses, the industrial bourgeoisie gained more strength.

When the economic crisis showed up by the end of the 1950s, the government decided to implement a new banking law to control the finance sector and the bourgeoisie relations. The 1958 Banking Law implied the banks should work for the general public good, economic development, and growth of the country. However, the law also eased to form conglomerate organizations and worked in favor of big capital groups. Banks with small capital and without support of big capital group were liquidated. The big capital groups began to transform themselves into conglomerate organizations.

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<sup>357</sup> Ibid.

## CHAPTER V

### CONCLUSION

The concept of finance is considered as a distinct part of economy and as running on its own logic through specific institutions detached from socio-political developments. In that sense, there is a tendency to exclude any development regarding the finance sector from the general progress of society and the balance of class power. However, as part of the general economy, which is integral to society and politics, finance is closely related to socio-political changes. This study reapproached finance from this perspective.

When the historical progress of finance is analyzed, the development of the finance sector is implicit in the change in the relations of production. Banks are the flagships of financial institutions. Banks increase investable funds and help to finance investors. In that sense, the development of finance is a part of the capitalist mode of production. The need of a finance sector is related directly to the phases of capitalist development in a given country. With the rise of industrial capitalism, the finance sector emerged as an important part of industrial development. In terms of funding industrial investments, banks were functional in the transfer of deposits and credits. Therefore, the rise of the finance sector and the bourgeoisie showed mutual progress and the synergy led to finance capital organizations that unified money, commerce, and industrial capital.

In late capitalized countries which did not follow the Western path in the transition to industrial capitalism, finance capital was formed as conglomerates. The conglomerates were multi-activity groups investing in unrelated sectors. In this case,

banks did not top the pyramid structure. This type of finance capital was solely the unification of money, commerce, and industrial capital.

An outcome of late capitalism in the world generally was state intervention and initiative in the emergence of the bourgeoisie and productive sectors. The state assumed a key role in developing the bourgeoisie in those areas where capital accumulation was weak or negligible. As a result, business investments were diversified in non-related sectors which provided short-term profits in accordance with the legislation and incentives set by the state. When capital accumulation became sufficient for the bourgeoisie to realize its interests and to transfer resources to the productive industrial sectors, banking was needed to finance this transition. The transition of the commercial bourgeoisie in Turkey to an industrial and financial bourgeoisie followed these principles of late capitalism to a large extent.

Banking in the early Republican era was dominated by public banks, which financed public investments and limited private entrepreneurship. The only exception was İş Bankası, which was the first national and private bank of the Republic. The bank had a privileged status thanks to the close relations with the state managers. The bourgeoisie gathered around İş Bankası benefited from the bank's privileged status and began to gain power.

The period between 1945 and 1950 witnessed major political and economic transformations. After the Second World War, the bourgeoisie had gained enough power to oppose the repressive administration of bureaucratic power in the political and economic arenas from the 1930s. When the bureaucratic sector lost its power, its hegemony collapsed after the war ended.

The largest and most durable privately-owned banks of Turkey were established in this period. The transition process of the bourgeoisie as well the

founding of finance capital organizations solely dependent on private entrepreneurship (except for İş Bankası), which have proved lasted until today took place between 1945 and 1950. A significant increase in financial transactions made the banking sector profitable for the big bourgeoisie, which had for the most part realized its capital accumulation process during the war years. This rush into the financial arena enabled rapid expansion and funding for new investments.

After the collapse of the hegemony project of the bureaucratic regime, the Democrat Party was established as a representative of the bourgeoisie on the political scene. The DP executed the demands of the bourgeoisie and international capitalist development. During the DP governments, the bourgeoisie found an amicable climate to rise in industry and finance. An industrial bourgeoisie came into being during the 1950s. The banking sector developed in order to finance the investments and the post-war period witnessed the expansion of private sector banking.

The banking sector in Turkey was characterized in the post-war period by the rise of private sector banking. The acceleration in intensification and centralization of national capital was first seen in banking and commerce, followed by industry in the 1950s. The unification of banks, commercial, and industrial capital began with İş Bankası in the early Republican era; it flourished with private sector banking in the 1950s.

Private sector banking and conglomerate banking overlapped in the 1950s. The cornerstone of the conglomerate system was the banks, which had a crucial role in this system by providing the transfer of savings and allocating credits. By the end of the 1950s, the Turkish economy was in a crisis that would soon turn into a political one. In these conditions, the government implemented a new banking law to control the moral hazard among the sectors. The 1936 Banking Law had not brought

constraints to the relation between the banks and their associations. In 1958, the government considered that this was the banks were exploiting this to enrich their associations and brought new measures with a new banking law. The 1958 Banking Law stated that the banks should work for the general public good, economic development and growth of the country. However, contrary to the restrictions in the 1936 law, the 1958 Banking Law made it easier to form conglomerate organizations. Banks now could give unlimited credits to groups that held more than 25 percent capital share. Thus, many banks with small capital were liquidated. Big capital groups then formed themselves as conglomerate organizations.

Most banks in the 1944-1958 period were founded to make use of the lack of oversight in the 1936 Banking Law. The major reason for the proliferation of the banks in this period was to access cheap credit of customers, and channeling this pooled sources to their affiliated business groups.

The question then becomes, why did banks not proliferate of before 1944. A major reason was the war (despite the fact that the war helped capital accumulation), mentioned before, the reign of bureaucratic power also counted.

As the spectacular increase in both the deposit and credit figures of these three banks show, and as their weight in total banking sector's deposits and credits delineate, İş Bankası, Akbank, and Yapı Kredi were the most important private banks in the period studied. Moreover, their speedy growth, profitability, and ability to provide much of the cheap funding from the populace in general was one reason if not the major one for the plethora of private banking institutions founded in this period. Thus they were both a symptom as well as a cause of the growth in private banking.

Although distinguished studies have been done, the literature with historical and social context on finance, banking and capital groups is still weak in Turkey. Since the capitalist relations consolidated late in Turkey, the dominance of finance in social relations was established after the 1960s. In this manner, together with the peculiarities of the history of Turkey, historical and social studies have neglected the field of finance. In the contemporary world, the financial area seems to have the biggest influence on socio-political and economic relations. Therefore, finance has started to draw attention in social science studies. Banking, financial institutions and conglomerates began to be interpreted in terms of balance of class power and socio-historical perspective for the post-1980 Turkey, but not for earlier periods. This study claimed that it is also important to look at the period in which the finance sector was established in this manner. While this study is an attempt to highlight and contextualize the rise of private banking with the rise of industrial bourgeoisie, the field is still open for further studies.

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