

**FRIEDRICH LIST, ZİYA GÖKALP AND
THE NATIONAL ECONOMY THESIS IN THE OTTOMAN EMPIRE**

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ABSTRACT

FRIEDRICH LIST, ZIYA GÖKALP AND THE NATIONAL ECONOMY THESIS IN THE OTTOMAN EMPIRE

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This study compares the National Economy concept as it is employed in Friedrich List's works with its theoretical reflections among Ottoman intelligentsia, particularly in Ziya Gökalp. The effects of National Economy on the Ottoman thought is examined by bearing in mind two journals: *Türk Yurdu* and *İktisadiyat Mecmuası*. The field of application of National Economy is explicated by an analysis of the first steps towards industrialization, especially after the Young Turk Revolution of 1908. It attempts to find answers to the questions as to how and to what degree the theoretical development of National Economy affected the Ottoman economic policies implemented.

Keywords: National Economy, Ziya Gökalp, Ottoman Economic Thought, Türk Yurdu, İktisadiyat

ÖZ

FRIEDRICH LIST, ZİYA GÖKALP ve OSMANLI İMPARATORLUĞU'NDA MİLLİ İKTİSAT TEZİ

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Bu tez, Milli İktisat kavramının Friedrich List'in çalışmalarındaki ilk hali ile kavramın Osmanlı düşüncesinde, özellikle Ziya Gökalp'in çalışmalarında, bulunan teorik izdüşümlerini karşılaştırmaktadır. Milli İktisat'ın Osmanlı düşünce dünyasındaki etkilerine iki dergiyi, *Türk Yurdu* ve *İktisadiyat Mecmuası*, göz önünde bulundurarak ışık tutmakta ve Osmanlı İmparatorluğu'nda II. Meşrutiyet sonrası hız kazanan Milli İktisat uygulamaları ile sanayileşme yolunda atılan adımları inceleyerek teorinin uygulama kanadını ele almaktadır. Bu bağlamda, Milli İktisat'ın Osmanlı İmparatorluğu'ndaki teorik gelişiminin uygulanan politikalarda nasıl ve ne kadar etkiye sahip olduğu soruları da yanıtlanmak istenmektedir.

Anahtar Kelimeler: Milli İktisat, Ziya Gökalp, Osmanlı İktisat Düşüncesi, Türk Yurdu, İktisadiyat

To My Family

who encouraged me to read and think

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CHAPTER 1

INTRODUCTION

1.1 Economic Background of the Late Ottoman Empire

The Ottoman Empire during its last century experienced rapid changes that ultimately ended with its dismemberment. Until 1838, capitulations had primary importance on determining the export-import relations for the Ottoman Empire. 1838 was the year in which the Ottoman Empire concluded Balta Limanı Treaty with England.¹ A new period began in which the Ottoman economy would be transformed into an open economy for the European manufactured goods. From then on, Ottoman economic policies became subject to commercial treaties signed with European countries.² Hence, the Ottoman Empire became the subject of

¹ According to the Treaty, export goods were subject to 12% tax, but only 5% duty was implemented on imported goods by the articles of treaty (Toprak, 1982: 102). In addition, Ottoman merchants paid a 2% transfer tax within the country. This was abolished in 1870, so the formation of an Ottoman merchant class was thereafter supported. Contemporaries elsewhere in Europe protected native merchants against foreign competition, at a time when the Ottoman Empire did the reverse. Even, England protected its agricultural goods against importation by *Corn Laws* until 1846. These rates had not been changed until 1860.

² According to new treaties signed in 1860-1861, custom duties on export goods would be 8%, but subject to decrease 1% per year, and by the end of seventh year would be fixed to 1%. By that increase, from 5% to 8%, Sadrazam Fuad Paşa aimed to increase revenues, but most importantly, to protect domestic industries against foreign manufactured goods. On the other hand, duty on import goods was fixed to 8%. Appeal to implement specific custom duty on particular goods was rejected by the other parties except Germany in 1890 (Toprak, 1985a: 668-669). Compared to foreign merchants, native ones were also subject to internal taxes. Hence, non-Muslim merchants formed connections with foreign

European economic exploitation. Economic dependency of Ottoman Empire in the year 1914, at the beginning of World War I, reached its top.³

Besides the treaties concluded with the Europeans in the 19th century, debts borrowed from the European states and their intervention in the economic and political life of the Ottoman Empire had important consequences. After commercial treaties began to be concluded in the second quarter of the 19th century, external debts rose to compensate for the trade relationship based on treaties. Foreign debt gave further stimulus to increase in the volume of trade.

companies and became middlemen on their behalf in the Ottoman Empire. Traditionally Ottoman economy imposed 10% custom duty on external trade, and 2.5% on internal trade. These rates were changed in centuries by the effect of capitulations. Capitulations began to be granted from the 16th century onwards to the Europeans. Ottomans decreased the custom duty on export goods to 5%. In 1683, by a commercial treaty concluded with France, this rate fell to 3%. That caused the Ottoman economy to be destitute of a significant source of revenue, and infant industries to be restricted on their development path (Toprak, 1985b: 944-945). In 1905, custom duties on imported goods were increased to 11%. This was accepted by Europeans because 25% of the tax revenue was in Public Debt Administration's control (Toprak, 1985b: 945).

³ Competition with imported goods caused domestic production and employment to be ruined. For instance, in the first quarter of the 19th century, Ottoman economy was self-sufficient in the production of cotton and woolen textiles. In 1910's, per capita consumption of cotton textile had increased to 2.5 times the level of 1820's. This was satisfied by importation of 80% of the demanded textile from abroad (Pamuk, 1994: 148-150).

“Ottoman Industry 1913-1915 Statistics” reveals the relationship more clearly: Distribution of enterprises according to sectors shows that food industry had a share of 28.6%, and textile industry had a share of 27.5%. These were the most attractive sectors for investment. It could be concluded that industrialized agricultural production or at least distribution of productive powers on industrialized agricultural production was equal to textile industry, which was very important for the development of big industries in the world of 18th and 19th centuries. 80% of the enterprises were engaged in producing raw materials or intermediate goods which were cotton yarn, wool or raw silk; the remaining part produced silk or other fabrics (Ökçün, 1984: 25-31).

Industrial and commercial dependency to Europe was riveted with another one; financial dependency.⁴

On the eve of the Young Turk period, the Ottoman Empire was dependent upon Europeans although it had not been fully colonized and it retained its political independence. It had been incorporated into the European division of labour as an agricultural economy.⁵ However, thirteen years of war between 1911 and 1923 dictated strongly regulative policies. Necessity of regulative policies plus the economic debates in the Young Turk Period brought about the shift from liberal ideas to *national economy* thesis within the Turkish nationalist movement. *The Young Turk Revolution* of 1908 was the turning point of not only political thoughts, but also economic ideas of the government. Years between 1908 and 1918 were the era of the formation of industrial consciousness among intellectuals

⁴ In 1876 Ottoman Empire declared moratorium, and fiscal policies were brought under control by the Europeans. *Düyun-u Umumiye İdaresi* (Public Debt Administration) (PDA) was the indirect result of these commercial treaties indeed. Effects of PDA were not restricted to fiscal sphere of the economy. PDA collected tax from agricultural production, so after a time; it tried to increase these tax revenues by giving support to agricultural production. Hence, a circle, composed of agriculture and tax collection, was created.

⁵ As a result of treaties, imports of the Ottoman Empire exceeded exports. In fact, export goods were composed of raw materials or agricultural goods, but imported goods were manufactured, high quality goods (Keyder, 1982: 20). Moreover, Ottoman exports increased from 4 million sterling in 1830 to 26 million sterling in 1911, which means there occurred a rise from 100 to 638. Imports rose from 4 to 38 million sterling, meaning an increase from 100 to 943 (Tezel, 1986: 66). Thus, Ottoman economy was incorporated to international division of labor as an agriculturist nation.

At the end of 19th century, Ottoman markets were full of foreign manufactured goods. Trade deficit rose. In addition, sales of Ottoman goods and revenue depended on foreigners' demand, so consumption of Ottoman society was also restricted by foreigners demand for Ottoman agricultural goods and their own production. Trade deficit continued to rise in the very beginning of 20th century, except 1902-1904. Due to the Revolution of 1908, and wars between 1912 and 1913, this process slowed down, but the tendency did not change in general.

thanks to the press of the Young Turk press.⁶ Until abrogation of the capitulations in 1914, policies based on national economy had not found enough space in practice.

The Unionist had learned that national sovereignty without economic sovereignty was meaningless. This depended not only on being free of foreign control but on the establishment and development of a national economy supported by the state.

(Ahmad, 1969/2010: 147)

After 1914, national economy, which had been discussed among intelligentsia formerly, began to be implemented.⁷ Committee of Union and Progress (CUP) saw the World War I as an opportunity. It was the war of independence not only in politics but also in economics. Abolishment of capitulations was the starting point of economic nationalism of the CUP.⁸ With

⁶ Even before the First World War, one wing of the Young Turks who had led the 1908 Revolution had begun to argue against the open economy model based on trade and agricultural development, supporting instead the protection of domestic manufacturing and a more self-reliant strategy based on industrialization. The Ottoman government, however, had already committed itself under international treaties to free trade and a capitulatory regime which provided extraterritorial privileges for foreign companies and citizens. As a result, these arguments had little impact on policy until the First World War (Owen and Pamuk, 1998: 12).

⁷ Stating that CUP implemented these policies consciously is not so realistic. Cavid Bey, as a liberal, was still the Minister of Finance of the CUP until 1917. Hence from 1914 to 1917, strongly regulative policies dictated by war circumstances were in existence. Only after 1917, or the end of World War I, national economic policies were put into practice deliberately.

⁸ The Unionists at the beginning of the World War I terminated foreign enterprises' privileges. Some of the railway and maritime businesses were expropriated and nationalized, so inland sea trade was taken over by the state. On the other hand, some of the areas, which were taken back from foreign businesses, were opened for any potential investment of new war allies (Kazgan, 2009: 45-46).

A law enacted on 24th March, 1916 included obligatory usage of Turkish on records and correspondence of firms. Technicians were sent to Germany for education and training. New professional schools were established to teach industrial production skills. A national credit bank (İtibâr-i Millî Bankası) was founded. The law of Encouragement of

the breaking out of war, D y n-u Umumiye (Public Debt Administration) (PDA) had lost its powers and privileges. In the years of war, by the encouragement of state-supported or owned banks, Turkish entrepreneurs became involved in economic activities, whether individually or as unions. When Unionists came to power by in 1908, national banking began to be implemented in policies.⁹

War circumstances dictated strongly regulative policies. Ottoman state gained opportunity to carry out a new custom duty plan after the abolishment of capitulations (Keyder, 1982: 22).¹⁰

The Young Turk government proceeded to build a national bourgeoisie by forming entrepreneurial cadres from Muslim traders, former guild members, and

Industry was passed in 1909 first, then in 1913, it was the most successful economic policy of CUP (Keyder, 1982: 21). It was enhanced and extended in 1915. According to law all staff had to be of Turkish origin, and recently established factories would be supported by state by giving 5,000 m² land at free of charge.

⁹ Ottoman Bank which was founded by French and English capital in London had the privilege of issuing banknotes. Apart from this, an agricultural bank founded in 1863 and a retirement fund in 1886 served for banking transactions. As a first step, *Osmanlı İtibar-i Milli Bankası* was founded in 1917. Its duty to give credit for public works, agricultural, and especially industrial enterprises. The aim was that when in 1925, privileges of Ottoman Bank would end, this bank would be converted to a national central bank. But after the war, İstanbul was occupied by the Allies (Kazgan, 2009: 49-50). Despite the fact that there existed attempts to establish a national bank movement after 1908, but especially 1914 onwards, most of the banks faced bankruptcy, and most of the private banks, particularly the local ones, did not survive into the 1930's ( k n, 1975: 412-458).

¹⁰ According to the customs law enacted at March 1916, it was stated that high custom duties would be implemented on the imported goods whose raw materials could be found within the country and production required low skilled labour. So that developing manufactures would be protected by import substitution policy (Toprak, 1982: 115-116). Custom duties were raised to 15 % first, then 30% (Kazgan, 2009: 44), so the low-rate *ad valorem* tariff structure was eliminated for higher specific tariffs on selected goods. In fact, this was still low compared to 60-70% customs duty imposed by European economies at that time.

bureaucrats. As they did for agriculturists of wartime, CUP encouraged this newly formed bourgeoisie to exploit market conditions of wartime, so that they could accumulate capital. Monopolies were created for the importation and distribution of commodities in short supply.

The national economy thesis gained impetus after 1915. Between 1916 and 1918, with the direct support of the CUP, 80 joint-stock companies were founded. Traders and small businesses were organized into bigger societies and were encouraged to invest their surplus capital in the formation of new companies (Zürcher, 2010: 219).

1.2 A Brief Outline of the Thesis

Ziya Gökalp, who was born on March 23, 1876, in Diyarbakır (Tütengil, 1964: 4), was uniquely important for his ideas that extended to all spheres of social life in the Young Turk period. After the Young Turk Revolution of 1908, he joined the Central Council of the CUP. Just before the Balkan Wars, between 1911 and 1912, he taught sociology in a school set up by CUP in Salonica.¹¹ His closeness to the policy-making mechanism distinguished him from other thinkers. He avoided direct participation in politics, at least practical politics, but his ideas

¹¹ Gökalp's experiences in İstanbul but especially in Salonica shaped both his ideology and personality. While Young Ziya had essentially been an Ottomanist in Diyarbakır, he transformed into a Turkish nationalist as a consequence of his experience in İstanbul but especially in Salonica (Ülken, 1979: 304, Heyd, 1950: 33). In Salonica, *Genç Kalemler* (New Pens), edited by Ali Canip and assisted by Ömer Seyfettin, had an effect on the ideas of Gökalp. Salonica sowed the seeds of Turkish nationalism in general and linguistic Turkism in particular, in his mind (Kudret, 1963: 17, 29). The journal was fighting against foreign elements in Ottoman language. The formation of Turkish national language was regarded as a necessary condition for cultural improvement. Gökalp, yet, not satisfied solely with linguistic reform, drew attention to social reforms and national revival in all spheres of life. It was Salonica where he took "Gökalp", which is an old Turkish name, as his second name in 1911 (Heyd, 1950: 33). The winds of linguistic nationalism combined with the effect of ethnic hostilities in the war-ridden Balkans helped transform Gökalp into a Turkish nationalist. (Tanyu, 1981: 66).

became influential over the party cadres. He chose instead to instruct sociology at the *Darülfünun*.¹² He died on October 25th, 1924 in Istanbul.

Gökalp had a comprehensive thought on the overall progress of the Turkish nation and state. He occupied an important place with respect to the national economy thesis. In the field of political economy, he was influenced by Friedrich List. List was known by his ideas in national political economy and criticism of the Classical School of Adam Smith in his book *Das nationale System der politischen Ökonomie*.¹³ He criticizes Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations*¹⁴. List had inspired intellectuals and politicians of the less developed economies such as Ziya Gökalp to advance by protectionism and industrialization instead of free trade. Hence we begin with List.

In the second chapter of the thesis, we review political economy of List, who was born on August 6, 1789, at Reutlingen in Württemberg. When he was a professor of practical administration at the University of Tübingen, in April 1819, German merchants and manufacturers met together at Frankfurt-am-Main for the Easter Fair for the removal of all inland custom-duties and tolls in Germany, and the establishment of a universal German system founded on the principle of retaliation against foreign states.¹⁵ He decided to write on tariff disputes by the

¹² Etimologically *Darülfünun* comes from Arabic in original. It is a phrase composed of *dar* (house) and *fünun* (sciences). In 1933, it was closed and reopened under the name of *Istanbul University*. He set up the Institute of Sociology in 1914, and he was officially appointed as the first professor of sociology at *Darülfünun* in 1915.

¹³ His work was translated into English by Sampson S. Lloyd in 1885 under the title *The National System of Political Economy*.

¹⁴ Hence, Smith's *The Theory of Moral Sentiments* and other works are irrelevant to research area of this thesis, keeping in mind the influence of Smith's works in particular, and evaluation of Smith's ideas in List's work.

¹⁵ Seventy merchants and manufacturers of German states wrote and signed a short note addressed to the Federal Assembly under the title *Petition on Behalf of the Handelsverein to the Federal Assembly, April, 1819*. Friedrich List presented the petition. For the full text of the petition see Hirst (1909/1965: 137-145).

encouragement of Charles J. Ingersoll who was the vice-president of the *Pennsylvania Society for the Promotion of Manufactures and the Mechanic Arts*.¹⁶ Furthermore, between 1841 and 1844 he wrote *The National System of Political Economy*. On November 30, 1846, he committed suicide at Kufstein.

List's works on national political economy became influential especially in the United States during his lifetime: "his name justly deserves to be ranked among the foremost pioneers in the history of the industrial development of Pennsylvania, as well as of the commercial policy of the United States" (Notz, 1926: 249). After his death, he has been referred as the "great-great-grandfather of today's development theorists, development policymakers, and development planners" (Senghaas, 1991:451).¹⁷ List used the term *political economy* as an

¹⁶ He published twelve letters publicly addressed to Ingersoll in *National Gazette* of Philadelphia, from August 18 to November 27, 1827, under the heading *The American System*. The society republished these letters, except the last one, under the title of the "Outlines of American Political Economy" in 1827. The twelfth letter can be found in the reprint of Margaret Hirst's (1909) book (Hirst, 1909/ 1965: 319-322). These letters are important because they demonstrate List's ideas in their initial stages of formation. It was his first comprehensive criticism of the classical theory of Adam Smith defending the cosmopolitan system of free trade.

Actually his taking of editorship duties of *Radinger Adler*, an American newspaper in German language, established his connection with the Pennsylvania Society where he became one of the leading exponents of the *American Political Economy* or *American System*, i.e. protective tariff policies. In fact, the society was the center of the protective tariff movement and members of the society called that movement *American System* (Notz, 1926: 250-252). Therefore, it can be deduced that List was not the founder of the American Political Economy or the American System but he became the renowned proponent of it.

¹⁷ On the other hand, for Schumpeter, ideas of List were not innovative or original for the analytical apparatus of economics. Despite that, List used existing analytical apparatus wisely in a correct manner which shows his scientific merit. His grand vision of a national situation was the prerequisite for such a merit and scientific achievement (Schumpeter, 2006: 479-480, 492). It was List who combined economic sphere of a nation's life to the nation's culture and politics, further, enabled nationalism to compete effectively with its rivals (Szporluk, 1991: 95).

alternative to *national economy*. He preferred to use *political economy* instead of *national economy* in most of his works. However, in this study we use the concept of national political economy for the sake of convenience.

In the third chapter, Gökalp's thought on national economy is analyzed. Effects of Carl Bücher from the German Historical School on Gökalp's conception of the stages of economic development, and Durkheim's solidarism are examined in addition to List's viewpoint of national political economy. Gökalp's ideas were similar to ideas defended by the members of the Historical School, but they were not the same. Actually, Gökalp unconsciously repeated the same subjects in a similar manner. Gökalp was not unique in defending the national economy. Akyiğitzade Musa¹⁸ was also one of the early intellectuals who

¹⁸ Mehmetcanoğlu Akyiğitzade Musa Bey (1865-1923) was born in Kazan. He migrated to Ottoman Turkey because of Russian oppression in Kazan. He was the defender of policies opposite to those voiced by Cavid Bey and Ohannes Paşa. He criticized classical theory, especially the comparative advantage idea of Ricardo, and free trade policies in his book *İktisat Yahut İlm-i Servet* (Economics or Science of Wealth) (1918). He can be classified as a Turkish follower of List especially because of his detailed framework on protective policies for development, but he was against the primacy of manufacturing unlike List. He raised the criticism of what the situation of workers' would be in a probable collapse of a particular branch of industry. He, like Gökalp, knew the French economist Cauwès and he found him closer to himself (Ülken, 1979: 218-221).

In the opinion of Akyiğitzade, state should directly intervene to economy and only by doing so, development would be gradually realized. (Ülken, 1979: 98-99). Akyiğitzade asserted that infant industries should be protected by custom duties instead of a wholesale protectionism, while, supporters of CUP argued the opposite. For them, e.g. *Dersaadet Ticaret ve Ziraat ve Sanayi Odası*, unlike Akyiğitzade's ideas, in protected branches of industry wages would increase but its positive effect would also be eliminated by rising prices. Yet, Akyiğitzade, as List did, defended that in protected manufactures, prices would eventually decrease due to the strengthening domestic competition. However, the leading idea was the comparative advantage, which was an indispensable component of classical theory.

When compared to Gökalp, it can be easily seen that he was more systematic and have a greater contribution to the theory of national economy in Turkey. Despite the fact that he was also a member of CUP, his ideas found less soom compared to Gökalp's influence on the policy-making mechanism. This is why he is briefly touched upon in this thesis and Gökalp is given a leading role.

defended the national economy. *Osmanlı Ziraat ve Ticaret Gazetesi* (Ottoman Newspaper of Agriculture and Trade) rejected liberalism as a whole, and favoured moderate protection policies in 1907 and 1908 as Kırkor Zahrop Efendi did in the Ottoman Parliament.¹⁹ Parvus Efendi²⁰ was one of the leading authors defending the establishment of industry in the journal (Toprak, 1985c: 637-638).

Durkheim's thought of solidarism and List's concept of national political economy were integral to Gökalp's point of view. Hence, Gökalp was not original in that way, but he was one of the early intellectuals of Ottoman society in reading them and his distinctive character comes from his intellectual influence. Considering the contemporaries of Gökalp, he was more influential in political life. His ideas found space to inspire policy makers. Because the effectiveness of ideas is more significant for us, we have chosen Gökalp instead of his contemporaries.

In the fourth chapter, we observe the contours of the national economy thesis in two leading journals of the era. One specialized in economic issues is *İktisadiyat Mecmuası*, and the other covering a wide variety of subjects is *Türk Yurdu*.²¹ *Türk Yurdu* and *İktisadiyat* are very important sources for our thesis because articles in these journals reflect the theoretical realization of national economy among Ottoman intellectuals. In addition to that, articles give clues about the practice of theory in real life. These journals were chosen for the sake of effectiveness. *Türk Yurdu* was one of the most effective journals as being the

¹⁹ They raised the idea of industrialization based on agricultural production. It was unlogical for them to export raw agricultural materials and import finished agricultural goods in return for a price five times greater than the former ones.

²⁰ Parvus Efendi (1867-1924) was born in Russia. His real name was Alexandre Israel Helphand. He stayed in İstanbul after his arrival in 1910. He wrote chiefly in *Türk Yurdu* and defended the necessity of industrialization for Turkey to gain its freedom from the European power based on capital (Mardin, 1985: 631).

²¹ Relevant articles from *İktisadiyat* have been read in the original. On the other hand, for *Türk Yurdu* published transcriptions have been used for this research.

voice of Turkish nationalist hotbed *Türk Ocağı* (Turkish Hearths), and *İktisadiyat* was the non-official publication of CUP. Further, Gökalp wrote in both journals. Force of the ideas are more important than the quality of ideas, so we have not chosen *Servet-i Fünun* or *Sanayi* (Journal of Industry), which anticipated the existence of a balance in development between agriculture and industry, from the era to examine.

In the final chapter, we summarize our findings about the reflection of national economy on industrialization in late Ottoman Empire. Furthermore, we make a comparison between the national political economy and its adoption in the Ottoman Empire. Moreover, industrial heritage, and novel ideas inherited by the new Republic from the Empire are briefly discussed.

The main aim of this study is not to form a new theory nor to make new conclusions about List, Gökalp or the thesis of national economy in the broadest sense. Our primary aim here is to bring together the literature on Ottoman national economy thesis and make a comparison between the original theory and its reflections among Ottoman intelligentsia, with an eye to their effects on Ottoman economic practice because we believe that institutions established and policies conducted in early Republican era have their roots in the late Ottoman Empire.

CHAPTER 2

LIST AND POLITICAL ECONOMY

2.1 German Historical School and List's Method

The effect of German Historical School²² on the concept of national political economy and unification of German states cannot be underestimated. It is suitable to date the establishment of the school to 1841, which was the year List published the first edition of his *magnum opus*. List's work *The National System of Political Economy* is primarily an answer to the economic position of Adam Smith and his followers comprising the Classical School as most of the members of historical school oppose to *laissez-faire* economic policies. "The book is set out essentially as a polemic against the "cosmopolitical" economics of the Classical School, reflecting the liberal doctrines of Smith" (Population Council, 2007: 594). Actually, List states his object at the very beginning of *Outlines of American Political Economy*, in 1827. In his first letter addressed to Ingersoll, he declares that "I confine my exertions, therefore, solely to the refutation of the theory of Adam Smith, and Co., the fundamental errors of which have not yet been understood so clearly as they ought to be" (List, 1827: 5). In fact, originality of List comes from the method he used. He used history as a proof for economic theory and reality, further; he emphasized the social character of economic

²² German Historical School first existed in the period when German-speaking people made effort for national unity, identity, and economic development. They thought, Economic development should not be under the control of Britain. Its supremacy over world manufacturing and commerce was unacceptable (Hodgson, 2001: 58).

activity. With his views on history and social sphere of economics, he constituted a methodological beginning point for the proponents of German Historical School (Ekelund and Hébert, 1997: 227).

In addition, List's work contains a general criticism of England's economic policies. Indeed, List keeps in mind that all the policies conducted by England, aiming to establish free commercial system and emphasizing cosmopolitical union of all nations, can be entitled as the national political economy of England because these all serve the benefit of England. He criticized nineteenth century nations except England in being less advanced in manufacturing industry. Thus, he prescribes policies for those nations aiming to develop their civilization, industry, particularly manufacturing, and commercial relations. His work is a prescription for agricultural countries and their nascent industries by use of the tool of protectionism. He suggests that undeveloped economies should be protected in favor of domestic production against industrialized, developed foreign economies in the very early stages of the development process. He sees the development path of England and Continental Europe in a historical sense as the proof of the necessity of protective policies.

2.2 National Political Economy and Cosmopolitical Economy

Cosmopolitical economy, as formulated by Smith, is the science which studies how the humanity may attain prosperity under the assumption that all nations form one society and live in a state of universal peace (List, 1841/1966: 189-191). On the other hand, national political economy aims to teach how a nation can obtain prosperity, civilisation, and power, by means of agriculture, industry and commerce, respectively. Smith argues that national *political economy* or *national economy* has to be replaced by *cosmopolitical economy* or *world-wide economy*.²³ For him, all regulations would obstruct creation of wealth

²³ Although List uses the term economy of mankind as an equivalent to cosmopolitical economy occasionally, he did not use it frequently in his "National System".

and universal peace and free trade was the most important precondition of economic prosperity. However, according to List, Smith and his followers confounded effects with causes. Perpetual peace exists among politically united provinces and states. Owing to that union, commercial union comes into picture. Hence, due to commercial union which is the result of the perpetual peace and political union, nations benefit from free trade.

Among the provinces and states which are already politically united, there exists a state of *perpetual peace*; from this political union originates their *commercial union*, and it is in consequence of the perpetual peace thus maintained that the commercial union has become so beneficial to them.

(List, 1841/1966: 126; emphases added)

A universal republic or a union of nations on the other hand, can exist only if all nations reach to same degree of development in industry, civilisation, political cultivation and power. If this condition is attained, then free trade can be developed allowing each party to gain advantages from the union. Under the conditions of List's time, universal republic of equal nations was not possible, so he calls the free trade theory *pseudo-cosmopolitical* in his speech at a dinner given for him by the Pennsylvania Society for the Encouragement of Manufactures at the Mansion House, Philadelphia, November 3, 1827 (Hirst, 1909/1965: 278). Since "universal republic" was not possible, free trade would result in the universal subjection of less advanced nations to the supremacy of dominant, manufacturing nations with improved commercial and naval power. Thus, not free trade but protection appears to be the most effective policy on the way to the unification of nations initially, and freedom of trade ultimately. List expressed the duties of national political economy in his letters as such:

National Economy teaches by what means a certain nation, in her particular situation, may direct and regulate the *economy of individuals*, and restrict the *economy of mankind*, either to prevent foreign restrictions and foreign power, or to *increase the productive powers within herself*-or in other words: How to create, in absence of a lawful state, within the whole globe of the earth, *a world in itself*, in order to grow in *power and*

wealth to be one of the most powerful, wealthy and perfect nations of the earth, without restricting the economy of individuals and the economy of mankind more than the welfare of the people permits.

(List, 1827: 8; emphases added)

England made nation's will primary objective in its policy making. By using the free trade as a weapon, England extended the market for its own manufactures in all countries, and used capital for national goals. It has no aim to invest or establish manufacturing sector in the Continental Europe. All excess capital went into trade with foreign parts of the world, but if England wants emigration or capital export for investment abroad, it will do it in most distant countries. Other continental states remain unproductive, can supply agricultural goods, or manufactures requiring not much skilled labour. This path of unification, List concludes, is unnatural. In order to enable freedom of trade to function naturally, the less advanced nations' cultivation level must first be elevated by artificial operations to that level of cultivation to which the English nation has been unnaturally raised (List, 1841/1966: 200-205).

2.3 Powers of Production and Value in Relation to Free Trade and Protectionism

Smith in his book *The Nature and Causes of the Wealth of Nations*, addresses the issue of wealth and its sources. He asserts that the causes of wealth are totally different from itself, and also the power of producing wealth is more significant than itself. He relates wealth directly to the production power of labour, and the proportion between the labour employed and not employed. Since the main source of wealth thought as labour, it is also argued that the principal factor causing poverty by idleness. In addition, productivity of labour chiefly depends on the degree of skill and judgement. He adopts the idea that conditions of nations primarily dependent on their productive powers. He takes labour as the source of wealth, so the idea of division of labour gains primary importance for him (List, 1841/1966: 133-136).

According to List, when Smith tried to explain productive powers and their sources, he committed on the mistake because he considered only values of exchange, augmentation of material capital, and existence of markets, so his thought sank deeper and deeper into materialism, particularism, and individualism (List, 1841/1966: 137). List, on the contrary, illustrates that existing state of the nations is the outcome of discoveries, inventions, accumulation of mental activity of generations that lived before. These all construct the *mental capital*. By the help of political power, nations can activate mental capital and nature of the powers of production.

Smith and his followers thought mental capital is not as productive as material one. In other words, a worker in a construction is the main source of wealth as being source of the material capital, whereas the teacher who educated this worker is not productive.

The errors and contradictions of the prevailing school to which we have drawn attention can be easily corrected from the standpoint of *the theory of the productive powers*. Certainly those who fatten pigs or prepare pills are productive, but the instructors of youths and of adults, virtuosos, musicians, physicians, judges, and administrators, are productive in a much higher degree. The former produce *values of exchange*, and the latter *productive powers*, some by enabling the future generation to become producers, others by furthering the morality and religious character of the present generation, a third by ennobling and raising the powers of the human mind, a fourth by preserving the productive powers of his patients, a fifth by rendering human rights and justice secure, a sixth by constituting and protecting public security, a seventh by his art and by the enjoyment which it occasions fitting men the better to produce values of exchange.

(List, 1841/1966: 143-144)

Unlike Classical School's idea that higher prosperity depends on wealth (values of exchange), List defended that prosperity of a nation would be higher only if it developed its powers of production. Moreover, powers of production of a nation can be raised only by increasing manufacturing power. This can be attained by sacrificing some of the current advantages as a means to guarantee future

advantages. Hence, theory of value cannot be applicable in commercial relations for nations because cheapest good of foreigners may not be beneficial to a nation at all times.²⁴ Under the conditions of the 19th century world, manufacturing power, by unprotection, could not be created under free competition with other nations having already developed manufacturing powers. List clearly states how a nation, by productive measures, attains prosperity:

It is true that *protective duties* at first increase the price of manufactured goods; but it is just as true, and moreover acknowledged by the prevailing economical school, that in the course of time, by the nation being enabled to build up a completely developed *manufacturing power* of its own, these goods are produced more cheaply at home than the price at which they can be imported from foreign parts. If, therefore, a sacrifice of *value* is caused by protective duties, it is made good *by the gain of a power of production*, which not only secures to the nation an infinitely greater amount of material goods, but also *industrial independence* and the *internal prosperity* derived from it the nation obtains the means for successfully carrying on foreign trade and for extending its mercantile marine; it increases its civilization, perfects its institutions internally, and strengthens its external power.

(List, 1841/1966: 145; emphases added except for *value*)

The reason behind the fallacy of Classical School lies in that they do not differentiate productive powers and values of exchange. The idea of values of exchange makes free trade between all nations logical. However, if powers of production are taken into consideration, protective policies for an agricultural nation is the only way to reach the level of nations which are already developed in manufacturing.

²⁴ By defending the idea of buying cheapest good from foreigners instead of native products, Classical School thinks as a merchant and excludes political thinking from economics. This was a basic mistake, according to List. For him, this situation prepares the fundamental distinction between cosmopolitical and political economy. Former excludes politics and the latter includes it. For that reason, cosmopolitical economy does not take into account the nation, but political economy does (List, 1827: 9).

2.4 Division of Labour and Confederation of Productive Powers

The Classical School owes a debt to its famous founder for the theory of division of labour. Nevertheless, neither Smith nor any other defender of the school had investigated the further results of the theory. List gave the importance not merely to division of labour, but the division of different commercial operations between several individuals. Yet, the most important part of the process lies after the division. In other words, confederation or union of labour for a unique production process after division is more significant than the division itself. Actually, productiveness is not the result of division but that of the union of powers.

The idea of confederation is extendable to whole manufacturing and agricultural power or the whole economy of a nation. Manufacturing sector of the economy should be organized like a body. One manufacture should complete the necessities of another manufacture so that the confederation of manufactures works in harmony and balance.

In proportion as the manufacturing power is thus developed will the *division of the commercial operations* and the *co-operation of the productive powers* in agriculture also develop themselves and be raised to the highest stage of *perfection*. That nation will therefore possess most productive power, and will consequently be the richest, which has cultivated *manufacturing industry* in all branches within its territory to the highest perfection, and whose territory and agricultural production is large enough to supply its manufacturing population with the largest part of the necessaries of life and raw materials which they require.

(List, 1841/1966: 153; emphases added)

Under normal circumstances, with the development of the productive powers of the state, increase in the rural population will shift into the manufacturing sector. In addition, agriculture serves for the necessities of the manufacturing sector and population. Raw materials are transferred into the manufacturing sector, and manufactured goods and machines are employed in

agriculture in return. Hence as production of manufacturing sector increases, shift of agricultural population into manufacturing rises, as it occurred in England. For a nation, there is a reciprocal relation between agriculture and manufacture. Developed manufacture is essential for an improved agricultural production, and agricultural production is crucial to feed the manufacturing population. Thus, not only among the manufacturing industry and its components, but also between manufacturing, agriculture and commerce, there should be a union of productive powers in order to attain internal prosperity for a nation.

Indeed, the most significant division of occupations and co-operation of productive powers in material production within the nation exists between manufacture and agriculture. As long as productive powers in these sectors work in balance and harmony, development comes into picture. According to List: “*A nation which only carries on agriculture, is an individual who in his material production lacks one arm*” (List, 1841/1966: 160). Additionally, a nation exchanging its agricultural products for foreign manufactured goods is the individual, who lacks one arm, but supported by a foreign arm. In truth, the international co-operation of productive powers is imperfect because there is a strong tendency for it to be interrupted by political conflict, commercial crises, and most importantly by potential wars. Hence, for a nation, its national confederation of productive powers has primary importance compared to international confederation.

2.5 Private versus National Political Economy

According to List, the Smithian Classical School ignores not only the principles of nationality and national interests, but also their existence. Such an understanding leaves the investment decision to the individual, whereas state imposes restrictions and regulations on private industry for the benefit of the nation. For the school, the wealth of a nation is the aggregate wealth of its individuals. Restriction and regulation causes that wealth to decrease because national wealth improves only if individuals are left alone in their investment

decisions. This system is, no doubt, the description of private economy. Furthermore, aggregate of productive powers of individuals is not equivalent to nation's productive power because at the level of nation, these powers directly depend on social and political conditions. Effective division of labour and confederation of powers pave the way for improving the productive powers of a nation.

As a second step to private industry, Classical School ignores politics and social conditions of the nation, and engages in the improvement of the human race's prosperity. Therefore, free trade becomes the most favorable policy for commercial relations between nations. However, it can be applicable only if all the nations are at the same stage of development. Otherwise, dominant nation would subordinate the interests of the whole to its national interests. Under these circumstances, it is better to defend the existence of free competition for the members of the same nation in their exchanges only. That is, internal competition brings about perfection in final products and improvement of productive powers by inventions and usage of new machinery in the production process.

2.6 Stages of Development

For List, the concept of independence and power arises in the idea of the nation. Achieving economic development of nations and making it ready for a possible universal society in the future are the duties of national political economy. Because development of human race is only imaginable if mental culture, power of production, security and prosperity of nations improve, in the opinion of List, development of the individual nations is important. Above all, it is important to know what a nation is:

A nation in its normal state possesses one common language and literature, a territory endowed with manifold natural resources, extensive, and with convenient frontiers and a numerous population. Agriculture, manufactures, commerce, and navigation must be all developed in it proportionately; arts and sciences, educational establishments, and universal cultivation must stand in it on an equal footing with material

production. Its constitution, laws, and institutions must afford to those who belong to it a high degree of security and liberty, and must promote religion, morality, and prosperity; in a word, must have the well-being of its citizens as their object. It must possess sufficient power on land and at sea to defend its independence and to protect its foreign commerce. It will possess the power of beneficially affecting the civilization of less advanced nations, and by means of its own surplus population and of their mental and material capital to found colonies and beget new nations.

(List, 1841/1966: 175)

According to List, nations have to pass through five stages of development. These are original barbarism, pastoral condition, agricultural condition, agricultural-manufacturing condition, and agricultural-manufacturing-commercial condition.

The industrial history of nations, and of none more clearly than that of England, proves that the transition from the savage state to the pastoral one, from the pastoral to the agriculture, and from agriculture to the first beginnings in manufacture and navigation, is effected most speedily and advantageously by means of free commerce with further advanced towns and countries, but that a perfectly developed manufacturing industry, an important mercantile marine, and foreign trade on a really large scale, can only be attained by means of the interposition of the power of the State.

(List, 1841/1966: 177-178)

He derives the lesson after examining history of Europe more widely and gives historical examples in the first part of his book:

Finally, history teaches us how nations which have been endowed by Nature with all resources which are requisite for the attainment of the highest grade of *wealth and power*, may and must—without on that account forfeiting the end in view—*modify their systems according to the measure of their own progress*: in the *first stage*, adopting *free trade* with more advanced nations as a means of raising themselves from a state of barbarism, and of making *advances in agriculture*; in the *second stage*, promoting the growth of *manufactures*, fisheries, navigation, and *foreign trade by means of commercial restrictions*; and in the *last stage*, after reaching the *highest degree of wealth and power*, by gradually reverting to

the principle of *free trade and unrestricted competition* in the home as well as in foreign markets, that so their agriculturists, manufacturers, and merchants may be preserved from indolence, and stimulated to retain the supremacy which they have acquired. In the first stage, we see Spain, Portugal, and the Kingdom of Naples; in the second, Germany and the United States of North America; France apparently stands close upon the boundary line of the last stage; but Great Britain alone at the present time has actually reached it.

(List, 1841/1966: 115; emphases added)

A purely agricultural nation is in a disadvantageous state in relation to agricultural-manufacturing nation under free trade policy in the long run. If agricultural nation's agriculture has not been perfected, and it exchanges domestic products and raw materials for foreign manufactured goods, it should be stated that this nation is actually in a barbarous stage. Hence, free commercial relations become beneficial for that nation to improve its agricultural sector. On the other hand, if nation's agriculture has already developed, its social, political, municipal conditions are already in progress, moreover, industry has potential to develop, then free competition with a agricultural-manufacturing nation whose manufacturing sector has already improved will be harmful for its manufacturing sector. To establish and protect native industry, the nation should impose protective tariff policies and custom duties on foreign manufactured goods. Otherwise, the nations' economy will be dependent on foreign nations. A nation is independent and powerful as long as its industry is independent and its productive powers are improved. Excess of agricultural production cannot be sold if the demand of foreigners diminishes due to crises, war, new foreign tariff regulations, etc. In addition to that, a nation may fail to obtain supplies of the manufactured goods, which have primary importance for it. Agricultural nation can market its surplus only in proportion to foreign demand for its goods. Furthermore, as foreign manufactured goods are cheaper than native ones, after a lapse of time, domestic manufacturing will collapse and price of foreign manufactured goods will increase owing to monopoly. Hence, free trade will be destructive for the nation with potential to develop in manufacturing, because it is like the individual

with one-arm, but supported by a foreign arm, in contrast to agricultural-manufacturing nation that can be described as the individual with its own two arms.

As stated by List, if the manufacturing sector, which has been developing, is in the first period of its development, then protective duties have to be very moderate. They should rise slowly with the rise of the mental and material capital, machinery and technical properties and entrepreneurial spirit of the nation in general. Besides, all parts of the manufacturing sector need not be protected. Only the most significant branches should be protected with moderate or high duties. Less important branches will move up with the necessary ones under low level of protection.

In List's opinion, war functions as a prohibitive tariff policy. It has disastrous effects on the commercial relations of one nation with another. Agricultural nation is forced to be disconnected from its manufacturing part existing in a foreign country. However, if the agricultural nation has already made improvements in population, civilization, and agriculture prior to diminished consumption and production, manufactures and factories in the country, no doubt, will spring up by the help of prohibitive behaviour of the war. On the other hand, a manufacturing nation, when it is also forced to be separated from its agriculturist counterpart, is compensated by its native agriculturists. After the peace is reestablished, agricultural nation will not wish to establish previous commercial relationship with manufacturing nation because the former one has become an agricultural-manufacturing nation. Thus, if it does not want to sacrifice its manufacturing sector for the sake of exporting agricultural products as it did before, it will desire to protect its own manufacturing sector that is like a baby trying to learn walking. On the other side of the picture, manufacturing nation will want to protect its recently developed agricultural sector. Therefore, both nations will try to protect native sectors of economy by the help of imposing duties on imports.

To eliminate and overcome potential risks, instead of separate manufacturing and agriculture in different countries, if both of the sectors exist in one country, every progress in manufacturing raises the demand for agricultural goods within the country. It is not fluctuating or uncertain tied to the conditions of foreign country or war. Furthermore, agricultural country is not subject to foreign manufactures. It can sell its own products to native customers who have stable demand on agricultural goods from year to year, and it can buy manufactured goods in return from native producers at suitable and regular prices. Every improvement in agriculture will certainly result in improvement in manufacturing in the country. Hence confederation of powers of production within the nation results in improvement in both of the segments of economy.

2.7 England at the Top Stage of Development

England's supremacy as a manufacturing nation comes from its possession of larger capital, and a larger internal market that enable it to manufacture in a larger scale, accordingly at a low-cost. This gives her the opportunity to have great improvement in manufacture, and access to the cheaper sea transport. Supremacy in manufacturing gives English manufacturers advantages over foreign manufacturing sectors. Yet, that relationship systematically results in foreign countries to impose protective policies in their native market, and improvement in their inland transport facilities. England will have to give up the belief that its duty is to dominate and monopolize the manufacturing power of the world. It will not require the other Continental countries to sacrifice their own manufacturing power by accepting the free import policy of agricultural goods and raw materials by England, and protecting native manufacturing sector against Continental nations which as a result forces them to protect their own manufactures.

Hence, England would have to follow free trade policy unlike its protective policies for native manufactured goods she pursued until now. By extending free trade to world, England tried to impose division of labour between

nations. In other words, England manufactures and other nations buy manufactured goods from England, and sell raw materials and provisions in return.

2.8 Manufacturing as the Primary Sector of Development

According to List, there are two primary sectors of economy giving prosperity to a nation. One is agriculture and the other is manufacturing. Agriculturist's efforts are honored chiefly by manufacturer as an obligation because existence and prosperity of manufacturer depends on agriculturist's commercial relations. Manufacturer should produce faster than rivals to advance and become rich, otherwise he/she ruins. In addition, whilst the agriculturist nations engage in trade with neighbors, due to unimproved transport facilities for them in general, the manufacturing countries try to widen trading scope to all countries of the world. If manufacturers' occupations are considered, it is apparent that they develop and utilize a wider variety of mental qualities and abilities than agriculturists do. While mental and material powers of production are much more in manufacture than they are in agriculture, these advances are extended also into agriculture gradually. Agricultural machines and tools are more improved for countries in which manufacturing is developed so that agricultural productivity is higher in addition to manufacturing prosperity. Power of machinery gives the opportunity to gain superiority over agricultural state by the help of improved transport facilities to manufacturing state.

It is from manufactures that the nation's capability originates of carrying on foreign trade with less civilized nations, of increasing its mercantile marine, of establishing a naval power, and by founding colonies, of utilising its surplus population for the further augmentation of the national prosperity and the national power.

(List, 1841/1966: 209)

Hence it can be inferred that a nation's power increases in proportion to that nation's capability to improve its manufacturing power.

For a nation at the agricultural stage of development, main objective is to achieve level of a manufacturing nation's effectiveness in manufacture. However restrictions on commercial intercourse work differently for both nations. As a result of restriction, agricultural power of country is limited, not raised. In addition manufacturing power of the country is destroyed by limited agriculture because, from then on, native agriculture does not feed the manufacturing population, and restriction on the import of raw materials hinders the utilization of the natural powers and resources of the nation. Yet, restriction on the import of manufactured goods brings natural powers, which were until now idle, into play and activates them. Accordingly, improvement in internal manufacturing power owing to restriction on importation of foreign manufactured goods brings progress in native agricultural productive powers to a level that cannot be attainable by free commercial intercourse. As a consequence of that process, that is, protective regulations adopted by an agriculturist nation, natural resources and powers are converted into productive capital. The leading sector in the progress is manufacturing which is newly established by the agricultural nation by imposing restrictions on foreign manufactures.

Manufacturing is so important for a nation because increasing the level of material capital can be achieved by converting unused natural powers into material capital and income producing instruments, and this can be attainable only by manufactures even in an agricultural nation. Productive powers of a nation are difficultly transferred from one field of employment to other with difficulty, which is from agriculture to manufacturing, but by manufacturing they can be easily utilized in an effective and economic manner.

The increase of the *material agricultural capital* depends for the most part on the increase of the *material manufacturing capital*; and nations which do not recognize this truth, however much they may be favoured by nature in agriculture, will not only not progress, but will *retrograde in wealth, population, culture, and power*.

(List, 1841/1966: 253; emphases added)

Establishment of manufacturing in a country means an increase in the demand for agricultural products. Consequently, greater variety and larger quantities of agricultural goods will be produced. Value in exchange of them is raised, so agriculturist can employ his land and labour more advantageously. Thus, increase of rent will be realized in addition to rise in profits and wages which will be followed by an increase in the selling value of land. "Rent is a chief means of usefully employing material capital" (List, 1841/1966: 236). Therefore, its price depends on existing capital and the proportion of that capital supply to demand. As a result of the definition of rent and price, and the emergence of a great investment interest due to low interest rate in the manufacturing nation, and individuals' wish to invest their surplus capital in land, the selling price of a given amount of rent of land is higher in such a country than in an absolutely agricultural nation. Hence selling value of land is also higher in the former. In the meantime, establishment of manufactures in a purely agricultural nation results in the increase of stock of cattle and value of land due to more effective use of mental and material powers in agriculture. As the value of land increases the wealth of a nation rises because it is attainable only if productive powers are used in a more economical manner.

In the sphere of commerce, a manufacturing nation is superior to an agricultural nation. Commerce of a manufacturing nation reaches an importance greater than the internal trade of a purely agricultural nation because of high level transportation facilities, population and greater variety of manufactured goods subject to trade. For a manufacturing nation, largest part of its foreign commerce lies in its internal manufactures, and it can be raised so long as it invests on manufacturing power. The imports of a manufacturing nation consists of the products of tropical climates; in sugar, coffee, cotton, tobacco, tea, dyestuffs, cacao spices, and generally colonial produce. These are paid by manufactured goods. This exchange constitutes the cause of the improvement of industry in manufacturing countries of the temperate zone, and the improvement of

civilization and production in torrid zone countries.²⁵ Hence, as long as torrid zone nations, such as India, South America and Asiatic countries, remain dependent on temperate zone manufacturing commercial countries, which are European nations in general, development of internal manufacturing powers in manufacturing nations continues infinitely. As the manufacture is the base of extended home and foreign commerce, it is the fundamental condition of the mercantile marine, commercial and naval supremacy as it was in the exemplary case of England.

2.9 The Effect of Custom Duties on Manufacturing Power

Customs duties can be considered as a means for development. In manufacturing countries, luxury goods are primarily subject to revenue duties, but necessary goods such as corn and cattle are not. On the other hand, countries of torrid zone, which are not developed in manufacturing, social and political institutions and civilization, should impose duties of revenue on manufacturing. According to List, however, revenue duties should be so moderate and should not restrict importation and consumption. Otherwise, internal productive power ruins and the aim of raising revenue disappears. Standards of protection should be adjusted according to the purpose of establishing and protecting the internal manufacturing power. Protection can be imposed by prohibition of manufactured goods, or by rates of duty, or by moderate import duties. Since, these are not always beneficial to the nation, they should depend on the specific conditions of nation and its industry. War functions as a selection mechanism among these types of protection through its strongly regulative character. During the war,

²⁵ List asserts that only countries in temperate zone can attain high industrial standards. Countries of the tropical climates or torrid zone have a tendency to produce provision and raw materials which are known as colonial produce in general. In List's opinion, this relationship forms the division of labour and confederation of powers of production. Exchange in manufactured goods for colonial produce gives stimulus in rising production for both zones by the help of improvements in transport and innovations in production process, so commercial intercourse between agriculturists and manufacturers increases enormously.

commercial relations between hostile nations vanish, so every nation has to be self-sufficient without regarding their economic conditions. In less advanced manufacturing nations, commercial industry, and in the most advanced nations, agriculture, has a tendency to improve in the course of war. As a matter of fact, less advanced manufacturing nations should continue to keep out foreign manufactured goods even after the war in order to compete with more advanced manufacturing nations. A clear example for wartime prohibitive behaviour for less-advanced manufacturing nations is France. After the Napoleonic wars ended and general peace was established in 1815, France did not include foreign manufactures freely in its market like Germany, Russia and North America did. During the war, in all branches of manufacture, internal transport facilities, foreign commerce, steam power and sea navigation, value of land, population and revenue increases were realized. France imported machinery, artificiers, workers, and capital, enterprising spirit from England that was already developed in these sectors of economy. Hence France was unable to utilize its own natural sources. Yet, it was a fallacy for France to impose restriction to the importation of raw materials and agricultural goods by the help of duties on imports. Besides, it would be another huge mistake for France if it did not return to a moderate protective policy and not allow competition systematically after it became a stronger manufacturing power.

In regard to protective duties it is especially important to discriminate between the case of a nation which contemplates passing from a policy of free competition to one of protection, and that of a nation which proposes to exchange a policy of prohibition for one of *moderate protection*; in the former case the *duties* imposed at first must be *low*, and be *gradually increased*, in the latter they must be high at first and be *gradually diminished*.

(List, 1841/1966: 311; emphases added)

To which level import duties should be raised in the situation of a shift from free competition to protection, and how the amount of duties should be diminished in the case of a shift from prohibition to moderate protection cannot be

determined precisely according to category of nation. That decision should be adjusted in relation to characteristics of that nation and relative conditions.

For List, machinery importation requires most consideration. Nations that have not obtained substantial improvement in technique and manufacture of machinery should permit the importation of machinery free from duty, or they should impose a low duty compared to other branches of industry. “Machine manufactories are in a certain sense the manufactures of manufactories, and every tax on the importation of foreign machinery is a restriction on the internal manufacturing power” (List, 1841/1966: 314). Machinery improves productive powers of nation by utilizing its natural sources effectively, so it requires a direct state support until it reaches to a level at which domestic machinery can compete with foreigners’. State should motivate investors to provide capital for these manufactories, and directly support home machinery manufacturing. At the time of war they provide the necessary requirements of nation, and after the war they become a model for the establishment of new factories.

2.10 The Customs Duties and the Classical School

Classical School does not deny the positive effects of certain protective duties conditionally. Smith permits the imposition of protective policies in case of three situations. First of them is retaliation by which restriction of foreign nation on our nation’s imports may be repealed. For List, on the other hand, retaliation is rational and useful only if it overlaps with the goal of industrial development. For example, retaliating against English restrictions on agricultural goods of Continental Europe by implementing protective policies on manufactured goods of England is favourable only if the remaining European nations reach to the stage of development which England had already attained in terms of manufacturing power. Secondly, defence requirements of a nation necessitate protecting domestic defence industry. On the contrary, according to List; protecting native manufacturing industry as a whole induces population to rise, material wealth, machine and mental power to accumulate, strength of its defense industry to build

up, and nation's independence to be realized effectively instead of the protection of particular military defense industries. Last of the extraordinary situations is equalization by which home products can be protected against low taxed foreign products. As it has been mentioned above, it would be more beneficial to protect native manufactured products as a whole in the opinion of List. Unlike Adam Smith, another theoretician of the Classical School J. B. Say objects to protection in these three situations, but he raises a fourth one. If a particular branch of industry is expected to be profitable after a few years of protection after which trade liberation is again established, protective duties can be applicable. Yet, for List, if a nation has attained to a level at which it has potential to establish manufacturing power and natural sources, protection induces the perfection of not exactly one branch but every branch of industry for that nation.

2.11 Commercial Treaties and Free Trade

In opposition to customs duties, commercial treaties occupy an important place on the assurance of the existence of free trade. For the Classical School, on the other hand, these treaties are unnecessary and damaging, but for List, these are the most effective tools on disappearance of restrictions and generalizing free trade to the world. Compromise of parties results in the abolition of duties reciprocally. However, as both of the contracting parties are not at the same level of development, one of them will, indeed, suffer from diminishing manufacturing power eventually.²⁶ Producing according to comparative advantage led manufacturing economy to dominate world manufacturing industry and

²⁶ Methuen Treaty of 1703 conducted by England and Portugal was injurious to Portuguese and the Eden Treaty of 1786 was so for France, and Assiento Treaty of 1713 for Spain. The first result of the treaties was the rapid and complete ruin of the manufactories (List, 1841/1966: 60-72).

commerce.²⁷ As a matter of fact, the party weaker than the other in manufacturing industry will sacrifice its improvement that has already been made in manufacturing industry prior to the treaty. By signing the treaty, a nation accepts to bind itself to low level of agricultural industry instead of manufacturing. Yet, free trade in agricultural products and raw materials is beneficial to all nations even if they are at unequal stages of industrial development.

Protection is only beneficial if it suits to the degree of nation's development in industry. Amplification of protection is disastrous, because as nations have manufacturing powers by degrees, the corresponding protective policy should be by proportionate degrees. As unequal nations, subject to treaty, make concessions and produce manufactured goods according to their stage of industrial development, the less advanced nation can supply only low-quality products. Thus, monopoly of the advanced nation rises. If, on the contrary, both sides are at the same level of development, then treaties result in perfection and cheapening of production. As in the last case, Continental nations may benefit from conducting treaties among one another but by staying away from England.

2.12 Concluding Remarks

Thus far, we have drawn a general outline of national political economy by recourse to List's career and work. By summarizing the basic points of List's critique of "free trade" theory, we pointed out the distinction between *cosmopolitical economy* and national political economy. In summary, List relates enhancement of powers of production, instead of *values of exchange*, to *manufacturing power* of nation. For him *power* is more important than *wealth* itself. In relation to that, power can be accumulated only if *protective policies*, instead of *free trade*, are implemented in the nation, which is in the early phase of

²⁷ Actually, in all of the treaties England serves the opportunity and advantages in agricultural production and raw materials to other party of the treaty by serving cheaper manufactured goods and long credits. As a consequence, Portugal and France became vineyards of England (List, 1841/1966: 67-72).

stages of development in manufacture, against foreign manufacturers. As an organism, a nation should divide its labour, but unlike Smith, List believes, it should unite its powers of production. Manufacturing and agriculture are two arms of the body, and these should function in synchrony to each other within the nation. By doing so, powers of production, whether mental or material, can be improved. Value of land, civilization, mercantile marine, transport, increase consequently.

CHAPTER 3

ZİYA GÖKALP AS A POLITICAL ECONOMIST

3.1 From Sociology to Political Economy

Gökalp's precedence in ideological sphere also existed among the academic. He has been identified as the founder of Turkish sociology (Ülken, 1979: 367). Hence it can be deduced that his effects on Turkish intelligentsia were not limited to his effects on and involvement in the CUP. The courses he taught at *Darülfünun* led to the foundation of Turkish sociology. In addition to his teaching experience, his efforts on the formation of method and curriculum made him the precursor of the native school of sociology (Fındıkoğlu, 1955: 154). Keeping in mind development in sociology in the world at his time, such as foundation of the first sociology department in the world by Emille Durkheim in France in 1913, his persistence and influence on the formation of a sociology school at İstanbul becomes more meaningful. It should be emphasized that he has been declared as the father of sociology after his death as List was posthumously regarded as the great-great grandfather of development economists.

Gökalp knew most of his important contemporaries through their works. He was familiarized with these major names through reading their works as well as from secondary sources. It is known that Durkheim had a huge influence on the formation of Gökalp's ideas. However, before Durkheim, Alfred Fouillée, especially Jean-Jacques Rousseau and Immanuel Kant have had permanent effects on Gökalp's thought (Parla, 1985: 67). Besides, Hilmi Ziya Ülken asserts that there is a significant influence of Gabriel Tarde in the formation of Gökalp's early

ideas. After a short time, this source of influence shifted, as Fouillée came into the picture, in addition to Auguste Comte and Friedrich Nietzsche's minor effects (Ülken, 1979: 304). It was however Durkheim whose influence was the strongest.

It was Durkheim's influence that gave stimulus to sociological character of Gökalp. Yet, there exist fundamental differences in the practice of Durkhemian sociological method and Gökalp's due to different properties of two different societies that were subject to examination. It should be no surprise that these differences have undeniable effects on the formation of sociology whose subjects are social structures and processes. For Gökalp, himself, his work is a translation of Durkhemian scientific methodology and theory, but it is also original because theory and method were applied to Turkish, Islamic and Ottoman civilizations. For him, only Durkheim's school of sociology came to mind when sociology was considered in general (Sağlam, 2008: 175, 181).

Although until 1913 a department of sociology was not established in Europe, there was a tradition of systematic thinking in social sciences. First, Comte, then Durkheim and eventually Weber dominated the field. However, reflection of European sociology in Ottoman social sciences was realized through France, and especially by the importation of Durkheim's method. The reason behind this was that French was the language of science in 19th century Europe. French was also the most popular foreign language in the Ottoman Empire before the World War I. Thus, Gökalp's adaption of Durkheim into Ottoman sociology was natural when we consider the currents of his time. If we widen the scope of comment, it should be stated that not only Durkheim, but also other contemporaries became a part of late Ottoman thought through French translations. In that process, Gökalp was no exception. Moreover, it is a strong probability that he learned about Friedrich List and John Rae²⁸ through their

²⁸ John Rae (1796-1872). Scottish-originated intellectual, but he spent most of his life in Canada. Although he was not an academic economist, by opinions on protective policies and criticism of Adam Smith in his book *Statement of Some New Principles on the Subject of Political Economy* (1834) he became well-known and influential.

translations in French²⁹. Despite that, distinctive character of Gökalp comes from his efforts to differentiate himself from French sociology by modify method by his practice on Ottoman society.

As a matter of fact, the adventure of sociology on the way of becoming a branch of social sciences was an evolutionary process. Indeed, all over the world, in Gökalp's time, boundaries of social sciences were not yet drawn:

The divisions among the social sciences were not as strongly drawn before the First World War as we so often readily assume. Sociology developed from within political economy and remained in close dialogue with it well into the 1920s. During the very same epoch, social sciences had not yet been fully differentiated. Not only Durkheim and Weber, but also Vilfredo Pareto, Joseph Schumpeter, François Simiand, and Thorstein Veblen shared a discursive domain that encompassed political economy and sociology.

(Özveren, Erkek and Ünal, 2011: 4)

Therefore, it should be more accurate to define Gökalp as an *economic sociologist* rather than to regard him as a political economist or a pure sociologist. On the other hand, in addition to his contribution to the formation of sociology in late Ottoman Empire, Gökalp's influence on the development of political economy in

²⁹ He mentions these authors in his *Principles of Turkism* when explaining the national economy and its practice by England. It is a strong possibility that Gökalp inherited the legacy of List through his French translation by Paul Cauwès (1843-1917) who was a French professor of law engaged in political economy. He was known by his ideas on the necessity of state interventionism and custom duties. Further, he emphasized the essence of state's direct investment in addition to private enterprises (Tolga, 1949: 11). "He repudiated the doctrines of *laissez-faire* and free trade and strongly favoured intervention by the state in economic and social matters. From his vantage ground in the law faculty of the University of Paris, he was able to create a stir in orthodox circles and to exert strong influence in the direction of the modification of prevailing ideas. His chief publication in book form is *Précis du cours d'économie politique*, 2 vols., 1878-80, and 4th ed., 4 vols., 1894" (Ingram, 1888/1967: 289).

Turkey cannot be overlooked. As it has been mentioned, the reason behind Gökalp's choice on French social sciences in general, and his orientation to Durkheim in particular was merely linguistic. On the eve of 1920's, shift of the center for sociology from Durkheim to Weber resulted in a shift in Gökalp's attention from the sphere of sociology to political economy. Progress in German social sciences and economic development following the political unification and engagement of Ottoman Empire with Germany in an alliance relationship brought about a German influence on Ottoman intellectuals and policy makers. The intellectual idea behind the development of Germany was the *national (political) economy* thesis of Friedrich List and the influence of the German Historical School. Gökalp became the popularizer of national economy idea in the Ottoman Empire. Gökalp was aware of the significance of politics in raising intellectual potential. His participation in CUP stemmed from his concerns with the political application of his ideas. Hence, he was obliged to engage in political economy and shift his interest from sociology due to the social and economic state of the Ottoman Empire.

3.2 Gökalp's Transmission of List's Political Economy

In the years of First World War, there were three rival economic approaches within the CUP. These were (1) the side defending liberal economy, (2) the group advocating profession-based policies, and (3) the national economy whose proponents were Ziya Gökalp and Tekin Alp. The last party of the debate was the one most in favour of wholesome transformation. They expressed their ideas on the principles of national economy in journals, *İktisadiyat* (Economic Review) and *Yeni Mecmua* (The New Journal). In one of his articles, i.e. *İktisadî Vatanperverlik* (Economic Patriotism) published in the *Yeni Mecmua* (9th May 1918, Issue: 43), Gökalp asserts that the economic policy defended by Manchester School of the followers of Adam Smith could not be cosmopolitical. What he meant was that these policies had no universal validity for every nation. Instead of that, these policies might constitute the national economy of England, which had a developed manufacturing industry, so that it could benefit from free commercial

relations (Çavdar, 1992: 165). However England did not suffer unlike Continental Europe in general, and France, Portugal, Spain in particular, or North America had by concluding free trade treaties with England. According to Gökalp, the effect of John Rae and Friedrich List on lessening the attractiveness of Classical School among academics and intellectuals could not be underestimated.

Gökalp's ideas in economics were inherited from Friedrich List, French solidarism and Durkheim's sociology school (Sağlam, 2008: 206). However, the primary impact comes from List. Gökalp's economic thought was shaped around the concept of national economy, which was the reflection of political economy of List. At the beginning of 19th century, List had already had a point of view as a reaction and critique of classical political economy, whose father was Adam Smith, and followers were Say, Ricardo, etc. As mentioned in the previous chapter, List was not only opposed to universal free trade under unequal economic and social conditions of nations, but also a proponent of temporary protectionism in international commercial relations in favour of less developed nations. Free trade between these nations was unnatural, so conditions should be equalized by artificial measures. In the meantime, he criticized that relationship by opposing to the Ricardian principle of comparative advantage.³⁰ Producing according to comparative advantage gave England opportunity to dominate world manufacturing industry. For example, wine production compared to cloth industry in Portugal was more advantageous. While Portugal had an absolute advantage in both sectors due to lower wage rates in contrast to England, it chose to produce wine and its manufacturing sector was ruined. Thus, free trade policy with comparative advantage could be beneficial only if both of the parties had attained similar levels of economic development. That is, wealth can be maximized only "in a world of economic equals" (Tribe, 2008: 2) Tribe furthers his idea on free trade considering List's legacy:

³⁰ The concept was first defined by Ricardo in his book *On the Principles of Political Economy and Taxation* (Ricardo, 1817: 133, 147, 364)

The economic universality potential within this system was expressed by free trade, but the free and equal development of the world economy could not be furthered by unilateral declarations of free trade, nor by its imposition regardless of the level of development of individual nations. Without a manufacturing capacity the basis of national independence was insecure; protective tariffs were thus necessary to ensure that each nation could follow the true path of economic evolution and secure a proper balance of agriculture and industry.

(Tribe, 2007: 58)

List's principal contribution comes from his emphasis on manufacturing as a tool of economic development by implementing protective policies for a short transitional period. The reason behind his choice was the transformative effect of manufacturing on society and economic character of the nation through utilizing idle natural resources, mental and material capital and powers of production.

As List, Gökalp stated that free trade policy was nothing more than the national economy of England, and he was in favor of protectionism in trade policies. By doing so, accumulation of capital would be realized, and industrialization would be achieved by establishing heavy industry using that capital. Gökalp's use of Bücher's three-stage economic development model, and solidarism idea of Durkheim remind us of also List's stages of economic development and confederation of powers of production.

In Gökalp's opinion, there was a lack of entrepreneurial spirit; furthermore, there was no motive for private industry. To deal with this problem, state should intervene, support and encourage private investments. In his idea, such an economic role of state brings about a coherent social structure instead of class struggles. By doing so, he shows the parallelism in his thought with French solidaristic-corporatistic idea (Parla, 1985: 104). Like List, Gökalp's position in the policy-making structure, i.e. CUP, gave opportunity to be a part of the process of shaping economic policies towards state protectionism. He was not unique in defending national economy, nor was he so original in the formation of the theory itself. Yet, his effect was deeper than those of his contemporaries. His role in

spreading Listian thought was much more significant because of his political career.

For Gökalp, industrialization, but chiefly heavy industries, had great importance for Ottoman economic development. In one of his articles “*İktisadî Mucize*” (The Economic Miracle) published in *Küçük Mecmua* (Small Journal) in 1922 (Issue 23), he conveyed this message. His viewpoint in this article shows his awareness and knowledge on popular debates of economics and intellectual tendencies in the world. Correspondingly, Turkish industrialization could not be attained by free trade policies of the Manchester School based on liberal market economy. He gave geographical conditions, location and natural resources as reasons for adopting a different economic policy from that of England. Furthermore, in the conditions of English economy, it is a normal process to become entrepreneur for individuals. Arable land was scarce in England, so even small landowners were engaged in industry and trade. Progress in trade and development of industry owed to island location of England. Isolation from Continental Europe resulted in improvement of trade and manufacturing on the island. On the other hand, Turkish society was regarded as having strong links with agricultural production traditionally. Arable land was relatively much more. In the industrial sphere of economy, conditions were not in favour of Ottomans. Traditional manufactures had been affected severely in and after the *Tanzimat* because of free trade and competition. In addition to agriculture and manufacturing, Turkish society was not ‘individual initiative’-spirited. Considering the conditions of the economy and entrepreneurship, the policy should be increasing investments by state guidance (Ülken, 1942: 166-167). Gökalp’s detachment of Turkish national economy from England’s path reminds us of List’s opinions on the necessity of different national/political economies for different nations due to different conditions by nature. “Every nation must follow its own course in developing its productive powers; or, in other words, *every nation has its particular Political Economy* (List, 1827: 24). In the same article,

Gökalp gave clues for a planned economy that would be effective in the 1930's.³¹ In his opinion, creation of industry was a critical need for the Turkish economy. The goal could never be obtained by initiative of individuals and private enterprises. Only by the engagement of local administrators and municipalities in improving industry, every kind of manufactories could be established (Ülken, 1942: 168). It can be deduced that Gökalp realized that the economy was not ready for the development of private manufacturing. However, industry had primary importance for the development of Ottoman/Turkish economy, so measures should be taken by state authorities to attain the goal of economic development.

As a matter of fact, Gökalp, as a reformist, expressed his ideas on establishment of heavy industry as a natural aim of the nation by writing an article, the title of which could be translated as "New Life" (Yeni Hayat), in the journal, *Genç Kalemler* in 1910's. His words are evidences of remain the effect of Durkheim's solidarism on his thought. He claimed that CUP would not content with the engagement in small industry, but building up factories. To dominate the seas, Turkish nation would have the best ships. The social life would not be based on communities, but depend on solidarism and organization which were the result of individual free will. In every step of civilized life, nation will benefit from the newest theories and realities (Sağlam, 2008: 188). It should be emphasized that by so saying, Gökalp determines his position between Durkheimian solidarism and Listian national political economy. Thus, all the components of the nation would mutually support each other, and work in harmony to achieve common interest, which is industrialization.

³¹ Yet, neither Gökalp nor other defenders of national economy, such as Tekin Alp used the term *economic plan*. As a concept, planning, which was initiated in the Soviet Union, would not come into picture before 1925. After the IInd World War, capitalist states included it in their economic policies under the name of *mixed economy* (Çavdar, 1992: 178).

In the big framework, which was based on List's thought on economic development, economic transformation through industrial development would gradually reorganize the society and result in social advancement by working as a transformative social input. The scheme drawn by Gökalp, indeed, has many common points with List's stages of development. Gökalp summarizes a brief prescription for his agricultural nation to attain agricultural-manufacturing-commercial step of the development timeline. In this article, he did not give an outline on how the nation can attain these ends.

Gökalp, however, in his later writings, insisted that to achieve economic development, accumulation and establishment of corporations like banks that would transform private savings into investment were necessary. Moreover, there was a need in mechanization in agriculture to increase productivity and exports. Economic specialization, in addition to encouragement of individual initiative has an important place among the aims of state. In the framework of an effective state practicing paternalistic policies, there would be no need for a detailed bureaucracy. Yet, specialists and technocrats were necessary for an effective state (Parla, 1985: 109). In such a state, there would not be any intervention to individual's economic decisions, but regulation. Direct involvement of state in economic life, and direct state investment were put on the agenda; while, individual initiative was not to be restricted (Toprak, 1982: 350).

For Gökalp, to make progress in economic structure, it was appropriate to accept foreign direct investment and experts until national capital is formed and native experts gain experience (Sağlam, 2008: 208-209). List foresaw the beneficial effect of importing foreign machinery until this exchange naturally be exhausted by improvement of domestic manufactures of machinery. They both claimed that importation of productive powers were not harmful. In addition, import of mental capital would be profitable.³²

³² "If List did accord a certain priority to anything, it may be found in his high esteem for non-material intellectual forces as opposed to material goods. In "invisible capital," that

Gökalp preferred to adopt the three-stage model of Bücher, who was a member of German Historical School, unlike Ahmet Muhittin's adoption of List's five-stage development model.³³ According to Bücher, there were three stages of economic development, which are "Independent Domestic Economy (Household Economy)", "Town Economy", and last but not least, "National Economy" (Bücher, 1901/1967: 89).³⁴ For Gökalp, the last stage had also two phases. In the first one, national production reaches to national consumption, so that self-sufficiency can be realized. In other words, first phase of national economy consisted of accumulation and investment without regard to distribution of income, while, at the second phase social state is established and fair income distribution is the main concern of the state. These can be attained only by national solidarism which should be supported by an organic division of labour through a national will (Toprak, 1982: 32-33). The significant points of this framework are the tools, which would be used to attain the goal of national economy. Solidarism and division of labour within a nation could be utilized only by "national will" which was a unique means for the members of the nation.

is, in the stimulation and promotion of intellectual activity and inventive spirit, of knowledge and skills, in short, of competence, he saw a source of energy and strength that would be very difficult to replace by natural resources" (Senghaas, 1991: 456). Hence, it was normal for both writers to accept intellectual potential of foreigners in addition to importation of developed nation's technology and technique at least in the initial stages of development. Senghaas mentions that Listian thought in this respect in his article: "Nations with a calling, he felt, were capable of utilizing the equipment and technologies of the advanced economies to their own advantage and to accelerate catch-up development" (Senghaas, 1991: 457).

³³ Ahmet Muhittin made inference from Turkish history and claimed that Turks lived in the pastoral stage of development in longest and then, unlike List's template in which pastoral stage was followed by agricultural stage, they entered to commercial phase. While European cities transformed into industrial centers, Ottoman cities were still in an agricultural state with light industry (Toprak, 1982: 30).

³⁴ In the first stage, self-sufficiency exists, goods are consumed where they are produced. In the next stage, direct exchange comes into picture, trade between consumer and producer exists. In the last stage, wholesale production and circulation of goods emerge. Middlemen increase in number so trade cycle is extended (Bücher, 1901/1967: 142-149)

Hence, List's idea on confederation of labour revealed itself in Gökalp's thought under these titles: Durkheimian solidarism, organic division of labour, and cement of all; the national will.

3.3 Formula for the Development of Turkish Economy in *Principles of Turkism*

Gökalp did not express his economic opinions in his books, except for *Türkçülüğün Esasları* (Principles of Turkism), which was published in 1923. His legacy was summarized comprehensively in that book. Under the sixth section entitled *Economic Turkism*, he explained his viewpoint of economic nationalism. Especially in the later pages of the section, he gave a synopsis of his economic thought, and made prescriptions as List did in the last pages of the second part of his text. These few pages of Gökalp were so important because these can be evaluated as the transmission of Ottoman intellectual capital in the realm of political economy to the young Republic.

He first gave a brief explanation of Turkish historical stages from ancient times to his time. He concluded that Turkish society had lived in opulence and Turkish people should live in prosperity in the future. He favours society instead of individual, so solidarism in the economy is the tool to achieve this end. In other words, wealth should be attainable by each individual of the nation. Independence and freedom were the indispensable merits of Turks, so they could not be *iştirakçi* (communist), while because they were *müsavatperver* (egalitarian), they could not be individualist. Private property is acceptable only if it serves for the social solidarism. For that reason, he was opposed to socialism or communism that sought to abandon private property (Gökalp, 1923/2007a: 286). For Gökalp, socialism, like capitalism, depended on class struggle. Because of that, it could not be a solution for the problem of economic development of Turkish nationalism (Berkes, 1978: 458-459). He was also averse to individualism and liberal capitalism. The thing he was opposed to in capitalism was its liberal character omitting social benefit and solidarism. Individualism in liberal

capitalism depending on private interest was its worst attribute for Gökalg (Parla, 1985: 102). In addition to private industry, social property, which is the product of efforts and sacrifices of society, but not of individuals, should exist in a society. These properties should be used in favour of establishing factories and big farms for society (Gökalg, 1923/2007a: 286). This accumulation of capital and investment plan construct the first phase of the third stage, i.e. national economy, of the three-stage economic development framework of Gökalg that was adopted from Bücher. Revenues gained as a result of these investments should be distributed to needy indigent people by social state. This constitutes the second phase of national economy. This social wealth would eventually reach to a level at which there would be no necessity for taxation.³⁵

Hence, Gökalg, in *Economic Turkism*, stated the first social goal of Turks was to accumulate social wealth for the purpose of improving wellbeing of the nation without abandoning private property. The second goal was industrialization. He argued that, in order to become a modern nation, Turkey had to develop heavy industry. Further, he advocated the national economy as the only way to attain the European level of economic development. According to him, the most significant revolution in Europe was the economic one, and it was the replacement of town economy by the national economy and small enterprises by big industry. In the way of national economy and big industry, protectionism was the unique policy that should be implemented. At that point, he expresses the influence of John Rae and Friedrich List on the formation of his thought by stating that the guides, which would light the way of Turkish nationalism on forming the policies in favour of protectionism, were theories of Rae and List based on national economy. In his opinion, they had shown that policies and economics

³⁵ By predicting the abolishment of taxation, Gökalg theorized an utopic state in the conditions of his time. That is, proclamation of Republic was just realized, First World War and War of Independence had just ended. Labour force of the economy had diminished considerably, manufacturing was ruined, and revenues of the state were very scarce. He then revises the abolishment idea and changes it to at least a decrease in taxation. In 1925 *aşar* was in fact abolished.

developed in England had no general and international validity, but it was just the national economic policy of England, so it was beneficial only for England (Gökalp, 1923/2007a: 287).³⁶ Because England was a manufacturing country, it had to export manufactures in exchange of agricultural goods or goods requiring low-skill. For that reason, the only way for England to benefit was *open-door* system and abolishment of custom duties. Approval of such a system by less developed countries in manufacturing would result in the loss of their economic independence. According to Gökalp, these two intellectuals, by establishing theories of national economy and protective policies for the benefit of their own countries, helped attain the goal of developing big industry, so that America and Germany could challenge England in the manufacturing sector.³⁷ Moreover, they began to implement free trade policies as England had done. Gökalp realized the necessity of establishment of a program based on the conditions of Turkish economy and society for the existence of a progressive, consistent, and effective

³⁶ List also had compared American national economy with English national economy in *The Outlines of American Political Economy*: “American national economy, according to the different conditions of the nations, is quite different from English national economy. English national economy, has for its object to *manufacture for the whole world*, to *monopolize all manufacturing power*, even at the expense of the lives of her citizens, to keep the world, and especially her own colonies, in a state of infancy and vassalage by political management as well as by the superiority of her capital, her skill, and her navy. American economy has for its object to bring into harmony the three branches of industry, without which no national industry can attain perfection. It has for its object to supply its own wants, by its own materials and its own industry-to people an unsettled country- *to attract foreign population, foreign capital and skill*-to increase its power and its means of defence, in order to secure the independence and the future growth of the nation. It has for its object, lastly, to be *free and independent*, and powerful, and to let every one else enjoy freedom, power, and wealth as he pleases. English national economy is *predominant*; American national economy aspires only to become *independent*” (List, 1827: 12; emphases added except for *predominant* and *independent*). The parallelism of Gökalp’s thought with List’s can be seen clearly from this quotation from List’s letters. Both of them differentiated national economy of England and others, further, both of them insisted on the beneficial effect of attracting foreign capital and skills on infant industry development.

³⁷ By restricting the effect of List to Germany, Gökalp underestimated the influence of List on American Political Economy, and overvalued the effect of Rae.

national economy. Once the program was formed, individuals should channel their effort through the object of setting up big industry. Last but not least, he insisted on the necessity of the existence of a Ministry of Economy as a general regulator.

3.4 A Summary Statement of Gökalp's Contribution

Ziya Gökalp was an intellectual of the disintegrating Ottoman Empire. He stated the principles of Turkism systematically but very late compared to minorities that were hitherto living under the rule of Empire. Ziya Gökalp was not original in his ideas. He was repeated thoughts previously announced domestically and as well as transmitting European intellectual achievements to Ottoman intelligentsia. Indeed, by so doing, he preserved the core ideas but transforming them in general to fit conditions of Turkish society. However, his importance comes from that he had a distinctive capacity in combining two different ways of thinking; the traditional Turkish with “modern” European, and made a harmony of scientific concepts with solving problems. Gökalp asserted there was need for a program based on the domestic conditions, and implementation of national economy, which was imported from Friedrich List and German Historical School. Components of his thought were based on List's national political economy and Durkheimian solidarism. Yet, these two were not in conflict in his view. The former had a central importance in his opinions and Durkheim's effect was peripheral compared to List's ideas. Actually, by adopting solidarism, Gökalp provided an interpretation of *confederation of powers of production*. Moreover, he imagined the realization of industrialization goal by the aid of solidaristic-corporatism. The key factor to reach that end was the entrepreneurial spirit of private initiative. However, as List, he was opposed to individualism. Individuals should be supported only if they served the welfare of society, i.e. nation.

Gökalp is distinguished by his ability of melting different thoughts in the same pot, which was shaped by natural and historical endowments of the Turkish nation and his political involvement. Thus, Gökalp had the opportunity to put his theoretical ideas into practice through the policies of the governments or at least he found space to inspire policymakers to practice his ideas.

CHAPTER 4

THE OTTOMAN PUBLICATIONS CONCERNED WITH THE NATIONAL ECONOMY : *TÜRK YURDU AND İKTİSADİYAT MECMUASI*

4.1 *Türk Yurdu*: A Journal About Everything

Türk Yurdu (Turkish Homeland) (1911-) was a fortnightly journal whose first issue was published on 30th November, 1911. Except for some interruptions in its history, it has reached today.³⁸ It was the official publication of *Türk Derneği* (Turkish Society) (1908-1912) first. Later, the journal was transferred to *Türk Ocakları* (Turkish Hearths) (1912-). *Türk Yurdu* and *Türk Ocağı* were the centers of the idea of Turkism. After Salonica was occupied in 1912 and CUP move to İstanbul, the journal and the society were supported by the Unionists. *Türk Yurdu* can be regarded as the first Ottoman journal advocating economic freedom. In addition, first signs of *Halka Doğru* (Towards the People) movement can be observed in *Türk Yurdu*, *Türk Ocağı*, and *Halka Doğru* (the journal) (Toprak, 1985d: 130-131).

Subjects of the journal formed a wide range. These were literature, economics, history, education and morality, geography, ethnography, health, language, art, politics, architecture, etc. Hence, *Türk Yurdu* did not restrict itself with merely economics like *İktisadiyat*. So articles related to the economy and political economy were relatively few.

³⁸ Between 1918 and 1924, there was a break due to the wars, so these years can not be covered in this research.

4.2 Goals of the Journal

Purpose and profession of the journal were made explicit in the first page of the first issue. The purpose was to serve and be beneficial for Turkishness. They found to explain their profession unnecessary because content of the journal would clarify the paths which they would walk in order to reach their purpose. In addition to that, under the title of journal, was written: “*Türklerin Faidesine Çalışır*” (Works for the benefit of the Turks).

Moreover, the third principle of the seven on which the journal would be based stated that topics related to introduction of different Turkish communities, economic, moral and scientific improvement of Turkish people would be of prime importance, while politics would come afterwards (Özden, 1998: XIII).

4.3 Dependency and Underdevelopment of Fiscal Treaties

Tevfik Nureddin³⁹ asserted that because of privileges held by the Europeans, Turkish artisanship, including textiles, weaving, and carpet weaving, was ruined. Due to decrease of customs duty from 11% to 8% with capitulations, artisans could not compete with foreigners’ manufactured goods. In addition, Turkish merchants began to prefer selling European manufactures instead of Turkish hand-made ones owing to high profit margins of the former (Nureddin, 1911: 34). In addition there was no engagement towards industrialization and innovation among artisans. Without industrialization, artisans could not resist to rivalry. To protect artisanship, artisan societies should be founded (Nureddin, 1912: 196-197). This shows the corporatist viewpoint of the journal in general.

³⁹ Tevfik Nureddin was a Crimean Tatar, immigrated to Turkey and wrote on educational and economic issues especially in *Türk Yurdu* in 1910s. His real name was Nurettin Agayef (Kırımlı, 1996: 83).

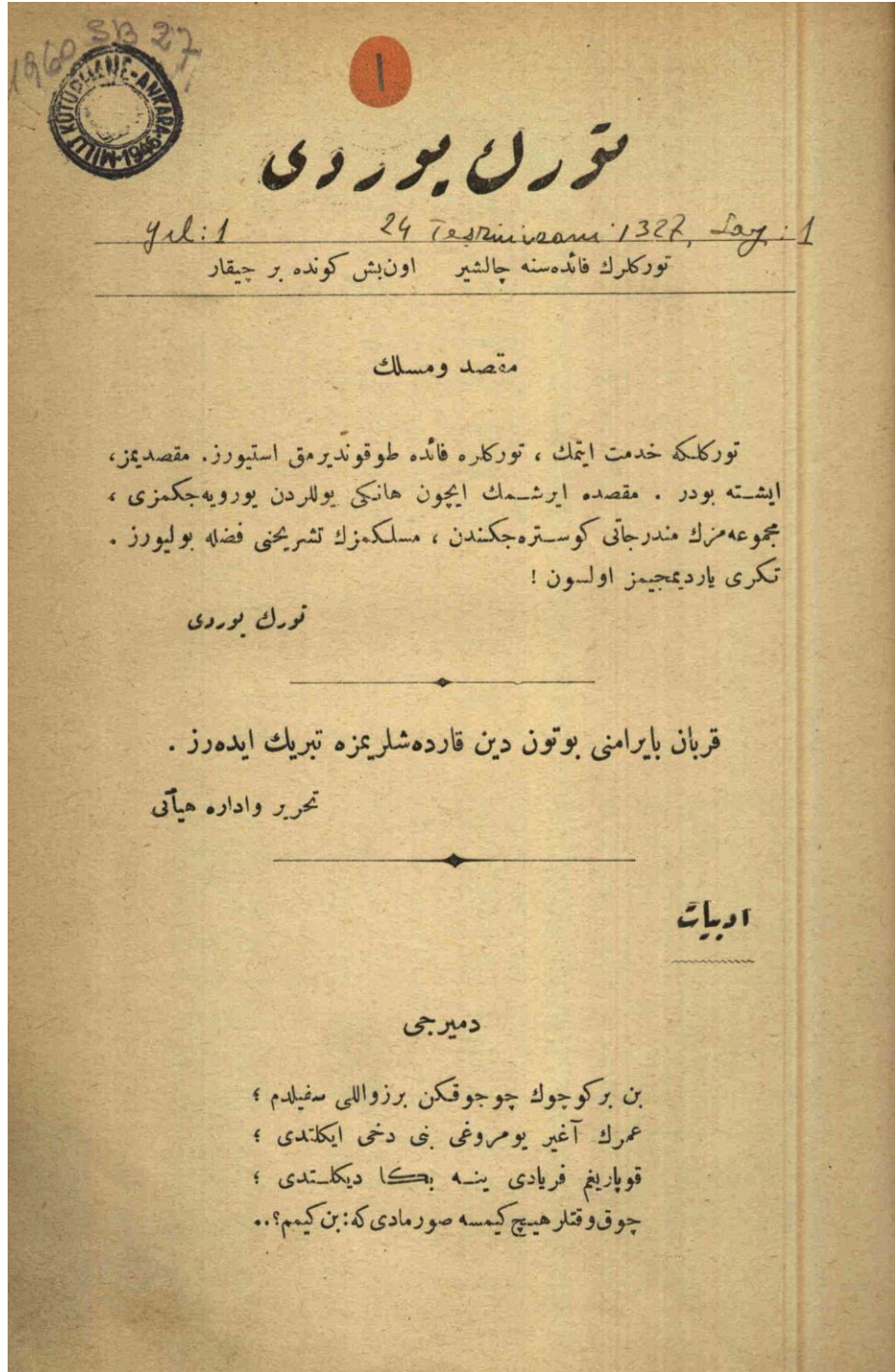


Figure 1: First page of the first issue of Türk Yurdu (Figure has been taken from National Library of Turkey Periodicals Information System website on 08.02.2012).

Progress of industry should be the major objective for the Ottoman economy. By improvement in manufacturing, nation's requirements and demands would increase. However by giving privileges to foreigners, the potential benefit of the economy decreased (Parvus, 1913: 202) Parvus claimed that Ottomans were politically dependent to Europeans by capitulations and commercial treaties. They could not change custom duties or intervene to tax collection. Because of the need for European capital, production, loan, railway services and big industry, Turkey was taken hostage by the Europeans. To be freed from political dependency, Turkey should first be freed economically. This could be attained only by progress in agriculture and industry.

Because a big percentage of Ottoman population was composed of peasants, they required primary importance on the path of economic progress and independence (Parvus, 1912: 146-147). M. Zühdü revealed that 14.3 million of the 22 million Ottoman population was engaged in agriculture, so agriculture was significant for the economy (Zühdü, 1914a: 231). However Ottoman economy was barely feeding itself, so Ottoman economy could not be defined as agriculturist proper. The development level of it was too low to classify Ottoman economy as agriculturist, commercial, or manufacturing (Zühdü, 1914b: 259).

Furthermore, Ottomans tried to attract foreign capital to invest in railway construction, but railways were like vessels in the body. Without blood these vessels would be useless, so without a wealthy peasantry, investments would not lead to progress (Parvus, 1912a: 57).

For an economy like that of the Ottomans, tax revenues had primary importance. Moreover, improvement in industry was essential for progress and future of both the country and the nation, however this could not be realized. The reason was that PDA (1881-1914) appropriated most of the tax revenue. Hence, at a time when the economy needed capital to survive and invest in industry, its own capital had already been seized by the Europeans. On the other hand, Ottomans continued to pay back the debt. This created a vicious circle and

strengthened the dependency of Ottoman economy to Europe (Parvus, 1912b: 264-265). In fact, moratorium should be declared in order to free artisans and merchants from banks and brokers but the latter resisted to this declaration of moratorium in order to maintain their hegemony on small businesses with the help of PDA (Parvus, 1912c: 88).

The ways to the development of a nation were: national consciousness, national language, national morality and faith, national policy, and national economy. Without the last two, the goal could not be attained. In addition, national economy was accessible only if power of the nation was infused into economy by freedom (Zühdü, 1915: 83).

4.4 *İktisadiyat Mecmuası*: Non-official Publication of the Union and Progress

İktisadiyat Mecmuası was a weekly⁴⁰ journal whose first issue was published on 8th February, 1915. It was suspended in November 1917. ⁴¹It was supported by the CUP, just like many journals issued in the the Young Turk Period.

On the cover page, under the name of the journal was written: “ilmî ve amelî her nev’i iktisadî meselelerden bahseder” (deals with all sorts of, scientific and practical economic issues). The cover page (Figure 2), also contains the price of the journal, but there was a differentiation, i.e. 1.5 Turkish Liras per year for Ottoman territory, and 33 marks or 40 francs for foreign territories. Keeping in mind the journal was published in two parts, one of which was Turkish and the other French, it can be deduced that one of the aims of the journal was to inform

⁴⁰ The journal was weekly for the initial issues. After a while for some of the issues interval rose to two and even to three weeks. For instance 43rd issue was published on 1st March, 1917, issues 44, 45, 46, 47, 48 were published at the same time on 8th March, and the 49th issue was published on 15th March, 1917.

⁴¹ Although there are 68 issues in the records of the National Library of Turkey Periodicals Information System, Toprak asserts that it was composed of 69 issues (Toprak, 1982: 26).

foreigners, but especially Europeans, about the developments in Ottoman economics and economy. Director of the journal was Celal Sahir (Erozan) (1883-1935).

In the years of World War I, the journal as a semi-official publication of the CUP became the center of the ideas for an interventionist state and economic solidarism (Toprak, 1985d: 129). From 1908 onwards, Unionists defended the liberal perspective of the Classical School at the *Ulum-ı İktisadiye ve İctimaiye Mecmuası* where Cavid Bey was one of the leading writers in favour of free trade and universal division of labour based on comparative advantages. In contrast, *İktisadiyat* held a central position in the theory and discussion of the national economy perspective inherited from the German political economist List after 1915. This shows the further shift in the CUP after World War I began.

4.5 First Article and Purpose of the Journal

The first article that was entitled “*Mecmuamızın Mesleği: Milli İktisada Doğru*” (Profession of our Journal: Towards the National Economy) (8 February 1915) published in the journal belonged to Tekin Alp.

Tekin Alp (1883-1961) was born in a Jewish family. His real name was Moiz Kohen. He was an active member of CUP. In addition, he wrote in *Türk Yurdu and Yeni Mecmua*. He was in favour of solidarism as Gökalp and he was the chief writer of *İktisadiyat*. As it can be clearly seen from his articles published in *İktisadiyat*, he was one of the leading proponents of Turkism and National Economy.



Figure 2: Cover page of the first issue of İktisadiyat (Figure has been taken from National Library of Turkey Periodicals Information System website on 08.02.2012).

Tekin Alp criticized Ottoman society in his first article in the journal. The Economy and economic discussions had and should have primary importance for societies. Economy held the first place in debates within Western societies. Tekin Alp determined the purpose of the journal as to arouse an interest in economics. National institutions established after the social revival would provide progress. In the journal, scientific principles of the national economy would be studied carefully. While doing that, not only Ottoman economy, but also European economies and scientific studies would be subject to research and comprehensive articles would be written and published. Therefore, readers would become familiar with a variety ideas.

In addition to theory, journal would try to examine the agricultural, commercial, and industrial state of Ottoman Turkey. In order to take steps towards reforms, the conditions of the time should be well known in advance. Besides national economy, the articles would be concerned with foreign economies because one of the most important components of the economic life was the relation with other economies. Furthermore, the progress in the internal economy depended on that relationship. Only by successful connections with foreign economies, domestic economy would advance, wealth increase and so forth.

He asserted that they need foreigners because they still did not have sufficient capital, improved industry, and science, not to mention individual initiative. He stated that developed economies were previously in a position like that of the Ottomans now, so it would be beneficial to examine their paths of progress in order to follow their success. For him, studying the German case would be most useful for this purpose. National wealth of Germany was the product of only a quarter or half a century. Not natural endowments but the nation was the source of their development. It could be concluded that the idea of national economy was a product of Germany. Only after *Frederik List* formed the principles of *National Ökonomie*, Germans took these principles as rules of progress, so that in a short time they could attain the goal. On the other hand, French economic thought was in favour of *Impérialisme économique*. Hence, for

progress in the Ottoman economy, the idea of nation should be the key factor and German stages of progress in the last 40-50 years should be analyzed in detail.

In addition to theoretical economics, economic practices would also have a place in the journal. For example, ways to increase the national production would be investigated. Moreover, he claimed that journal would search for the strategies to attract foreign capital into the Ottoman economy. To this effect, they would review foreign direct investments by sector. Economic institutions in the economy and their conditions would be spelled out. In the last sentence he clearly stated the purpose: Arousing the public interest for national economy and serving for the advancement of industry by issuing *İktisadiyat*⁴² (Alp, 1915: 2).

In the second year of the journal, Tekin Alp stated that despite all the difficulties, they had been successful in attracting people to engage in economics, and they were influential on policies of the state. He summarized the changes and enhancements that were planned to be made. According to him, difficulties faced by entrepreneurs in agriculture, commerce, and industry would be reflected in the pages of the journal. However, to reflect the problems of these entrepreneurs the existence of entrepreneurs is a prerequisite. Therefore, journal would work as a center encouraging capital owners to invest, and guiding them in the way of investment. In addition, conditions of cities, especially the big ones, would be subject to research in the new year. For this reason, new reporters would be hired. Furthermore, new writers with differing thoughts would write to provide richness and brainstorming within the journal. Last but not least, economic policies of the government would be studied closely. Criticisms on the insufficiencies of these policies would find space in the columns of the journal (Alp, 1916a: 1). This last statement shows potential existence of a civil opposition to government's economic policies around the journal.

⁴² “Bu neşriyatımızla milli iktisat için alaka-i umumiye-yi uyandıрмаğa, terakkiyat-ı iktisadiyemize hadim olmağa muvaffak olursak kendimizi bahtiyar addedeğiz” (Alp, 1915: 2).

4.6 National Economy Defended by Tekin Alp in the *İktisadiyat*

Tekin Alp, in his first article, tried to define the concept of nation, and he stated that nation was the collection of individuals whose moral and material interests were common. Moral interests were composed of language, literature, and arts, and these interests were united by the help of national culture, unlike the material ones. The latter could be attained by way of the national economy, which did not yet exist, but the interest of people could be guided by the attempts of the press (Alp, 1915: 2). According to Tekin Alp, Economic development of the society would be realized only by the national economy, but its components could not be determined yet. Ottoman intellectuals had not achieved a consensus on the rules of the national economy unlike the national culture. He asserted that Turkish nationalists had not created a new concept of national culture. There had been an existing culture prior to the birth of Turkish nationalism. Hence, consciousness of nationalism would be the crucial component for achievement in the economic sphere of social life like it was in the culture.

In the same article, Turkish press was accused of being uninterested in the issue of national economy. He compared Turkish journals with European journals. He found efforts of Turkish press insufficient in encouraging citizens in the way of industrialization, giving information about international trade and investment opportunities, and markets. On the other hand, he also criticized the government because of its bureaucratic complexity (Alp, 1915: 2).

Tekin Alp defines the concept of national economy by examining the components of economy. Nation was essential to melt personal, family and community economies in the same pot and make connections between them. By the unifying feature of nation, solidarism between these components would come into existence, so wealth, production, and power would increase. However the nation's peculiarity came from the fact that the formula worked differently for different societies. Hence, economics was not the same everywhere but there

existed national economies depending on nations' distinguishing features, geographical location, and weather (Alp, 1915a: 1).

4.7 National Economy Defended by Ziya Gökalp in the *İktisadiyat*

In addition to Tekin Alp's definitions of nation and national economy, Ziya Gökalp also defined them. Societies, like animals and other creatures, were composed of three layers which are the solidarity because of common feelings, the solidarity rising from the division of labour, and the organization defending these solidarities against external threats. Reflections of these layers are first; religion, language, and family, second; community and the last; the state. If the first layer infused into other layers, nation would emerge. Nation was an ideal concept and there was no tribe or race that could automatically transform itself into a nation. In fact, national economy was a precondition to be a nation (Gökalp, 1915: 3).

For Gökalp, there were two types of economics. One was the science of economics based on observation, and the other was the art of science, which was arranging and improving economic life on the data and knowledge from science (Gökalp, 1915a: 1-2). For Gökalp, each nation had an *economic reality* (realité économique) formed around its specific institutions, which were economic and technical institutions and legal institutions. Science of economics observe these institutions, compares them with their contemporaries, evaluates the data, classifies the information and shapes the economic reality. Moreover, deciding on the type of production is an essential part of this process. To achieve economic reality, economic and legal institutions, types of production which are proper to the nation should be researched. Homogeneity of economic development within a country should be achieved. Then, the art of economy helps nations on their path to attain a national economy. It should determine the specifications and the stage of development⁴³ for the nation, and prepare a prescription (Gökalp, 1915b: 1-3).

⁴³ He implied stages of economic development framework that he adopted from Bücher.

4.8 Role of the State

To attain a national economy and prosperity, and to improve the economy, state should be transformed into a direct actor within the economy. Tekin Alp celebrated the importance of private investments. Actually, the prime agent on the way to progress was the individual for him. Yet, individuals could not attain some objectives. These big scale goals, such as recovery from natural disasters, and improvements in science and technique could be reached by state interventionism, at least at the beginning stage of development. As a matter of fact, in already developed countries, these targets could be reached by private organizations or unions, but economic development level of Ottoman Turkey was not so high to allow the formation of this type of individual-oriented foundations (Alp, 1916b: 38). Natural endowments were important to reach national economy, but the most important property was national culture, and soul. There should be a stimulant to utilize natural endowments. By the help of a national education system such as in Germany, skilled labor force should be raised consciously (Schmidt, 1915: 2-3). Hence in addition to Turkish writers, there were also European, especially German, writers in the journal. Raynard Burge⁴⁴ stated that Ottoman government could solve the problem of economics in two ways. The first one was to leave initiative on economic development to European entrepreneurs and tradesmen. The other one was the state interventionism with reforms, and he was in favor of the second option (Burge, 1915:1-4).

This shows the parallelism of Gökalp's and Tekin Alp's points of view with German intellectuals on the duties of state and economic development. These thoughts were the natural results of the war era.

⁴⁴ We could not find much information about Raynard Burge, but in the related issue of *İktisadiyat*, it is stated that he was the Secretary-General of Germany-Turkey Center of Economics.

4.9 Economic Institutions

For the national economy, *İktisadiyat* proposed the establishment of many institutions. Tekin Alp defended the establishment of an assembly of economics independent from bureaucracy and state officials. Members of the assembly should be the university members trying to constitute the national economy. This assembly would work as the implementer of Gökalp's science of economics. It would conduct researches, make comparisons with European economies, and prepare reports for government to form national economic policies (Alp, 1915b: 1). In 1917, Assembly of Economics was established and in its first meeting, necessity of state intervention in economy was accepted by the members of the assembly.

Furthermore, a civil organization, engaged in the research for government's economic policies, should be established, according to Tekin Alp. Its existence would be better than civil organizations like Association of National Manufacturers because the theory of national economy was not built in detail yet. Hence, *İktisat Derneği* (Economics Association) would serve as a policy maker in the early ages of national economy (Alp, 1915c: 1).

İktisadiyat was not just a journal but also a center for the formation of economic ideas of CUP. Associations established as a result of the discussions through articles in *İktisadiyat* show the effectiveness of the journal. Subcommittees in state institutions and new ministries related to economics were in large part the outcomes of the brainstorming occasioned by the journal.

4.10 On Custom Duties, Trade Deficit and Foreign Direct Investment

A law enacted on March 1916 arranged custom duties and was widely discussed in the Ottoman press including *İktisadiyat*. According to the law, *ad valorem* taxes would not be implemented anymore and specific taxes would replace them. Tekin Alp wrote that with the new customs law Ottoman producers would be able to produce substitute goods of formerly imported foreign goods.

Trade deficit would decrease gradually. However customs law was not sufficient to advance the situation for foreign trade of the Ottoman economy. The biggest problem of the economy was the large trade deficit. From the beginning of the 19th century, deficit had reached to 30-40%. Primary reason for the deficit was the importation of consumption goods. New custom duties that began to be implemented by the law would help to decrease deficit. Imports would decline and exports would increase. Yet, deficit could not be eliminated totally because importation of intermediate goods and machinery would increase. So the deficit would rise. Despite the tendency for increase, this new type of deficit was more beneficial for the economy (Alp, 1915d: 1).

For Tekin Alp, in Ottoman custom duties system, the main concern was the fiscal enhancement, but economic life should also be concerned in tariff policy. In the opinion of Aynizade Hasan Tahsin⁴⁵, in an effective tariff policy primary purpose should be protecting the production of outputs whose raw materials were accessible within the country. On the other hand, if the production of a certain industrial good was not possible, then no tariff should be implemented on importation of that good. Although every government implements duties of import on these goods to raise government revenues, level of it should not be high (Tahsin, 1915: 4). By so doing, domestic production would be protected against foreign producers.

Tekin Alp asserted that foreign direct investment was beneficial for the economy, but it should not be left free. By uniting foreign capital with domestic capital, the Ottomans could benefit from foreigners' experience, capital, science and arts at the maximum level. He stated that even the developed economies sought to attract foreign capital, so there was no reason to oppose foreign direct investment. Yet he also clearly stated that his desire to welcome foreign capital was conditional on the targeted economic sector of investment. Investment in

⁴⁵ Aynizade Hasan Tahsin Bey (1877-1962) was a Turkish economist who wrote especially on fiscal policies in *İktisadiyat*.

mining, manufacturing or any fields causing production to rise were the most welcome options for Alp and the followers of *İktisadiyat*. Otherwise, by investing in the service sector, banking, or commerce, potential benefit of the Ottoman economy from foreign capital would be restricted. If foreigners invested in businesses raising agricultural and industrial production, Turkish nation would be grateful to investors. To determine whether foreign investment was favorable for the domestic economy or not, there should be strong economic organizations to monitor them (Alp, 1916c: 1-3).

Last but not least an interview conducted with Minister of Trade and Agriculture of the time displays the effects of the journal on economic policies. Minister Ahmed Nesimi said that they could not resist to foreign capital anymore. Employing national capital in contact with foreign direct investment would be a better policy than resisting it within the context of national economy theory (Sat, 1915: 8).

4.11 On the Debate About Industrialization

İktisadiyat was doubtful about industrialization. In the opinion of writers, total national production might not be increased by industrialization. There were some conditions for that. First of all, industrialization could be attained by only importation of large amounts of foreign capital. If the costs of imports were lower than that of the domestic producer, this would be harmful for the national economy because there would exist necessity of a protective policy. By insisting on that policy, prices and wages would rise in the economy. Moreover, domestic goods would not have competitive power in international markets, so exports would fall ultimately. In addition, protection caused industry to become more attractive than agriculture. Hence, there might be a migration from rural areas to urban, so agricultural labour force, and directly, agricultural production would diminish. Thus, by protecting manufacturing in order to raise industrial production, the agricultural sector would be ruined. Therefore, agriculture should be developed before industry (Alp, 1915e: 2).

Only by accumulating capital, individual, family and community economies could be bound to form a national economy. Saving money was a method to accumulate capital but it was not sufficient. Thus, CUP-established companies were the primary sources of domestic capital. In addition, protectionist war economy triggered the process of capital accumulation (Alp, 1915: 1). Although CUP's encouragement policy in industry for Muslim entrepreneurs became successful and gave rise to domestic entrepreneurs, they were CUP members in general, so capital was not distributed widely in society.

4.12 Two Different Paths Towards the Same Objective

Writers in the *Türk Yurdu*, focused on the escape from the capitulations and commercial treaties favouring European interests first. Parvus wrote on economic and fiscal imperialism that introduced Ottomans to dependency. For the implication of *national policy* in the political sphere and the establishment of national economy, Ottomans should be freed of its economic constraints. Peasants and artisans could be protected only if improvement in agriculture and industry was realized. So, the following step would be the advancement of agriculture and big industry in a harmony, but the latter had the primary importance. Primary interest of a nation would be industrialization in the material sphere. According to *İktisadiyat*, by national economy material interests of the nation would be attained. Individuals, family and community were the layers or components of the nation and by the aid of art of economy these would form a unique form of national economy. In Ottoman Turkey, these components could not be united without any intervention. Hence, state functions as intermediary for a solidarist mediation of private initiatives. State combines the components of the nation in material life. That is, productive powers of the nation would be 'confederated' by the state intervention. At the end of this process, output increase would be realized. State shows its protective face on behalf of the domestic improvement in production. *İktisadiyat* was in favour of agricultural investment and improvement by recourse solidarism.

CHAPTER 5

CONCLUSION

5.1 National Economy in Theory

In this study, we investigated the national economy thesis in the late Ottoman Empire. As with all theories, the implications or reflections of this theory for different societies require different elaborations. Ottoman intellectuals imported the well-known thoughts of Europeans through their translations in third languages. Hence, theories had already contained some influence of the nation and culture of the transmitter language. By adopting the Listian national political economy from its French translation, Gökalp also adopted Cauwés' ideas although the latter was directly influenced by List. The adoption process through translations might have strengthened the effect of French sociologist Durkheim on Gökalp's political economy. Even so Gökalp remained loyal to List's national political economy.

List resisted to the dominant ideas of the Smithian Classical School. Being the founder of Classical School, Smith formed a system of exchange values. In his universal construction, there was no room for the nation. In contrast, for List, nation was an entity standing between the individual and humanity. Aggregate of individual interests was not equal to that of humanity. The nation was a unity including a common language, merits, culture, civilization and history. Unlike Smith, for List that union was the source that would guarantee the individual's interests. The wealth of the nation could be improved by advancement of the *productive powers* of the nation. This idea is responsible for the difference

between Smith and List. Whereas, Smith gave importance to material capital, List believed that investing on mental capital would be more beneficial for the nation although some sacrifices had to be made for future gains. He adopted Smith's idea of *division of labour*, and built the idea of *confederation of productive powers* on it. Agriculture, manufacture and commerce constituted the productive powers of the nation. Only by confederating them, development and advancement could be attained. Yet, confederation process was harsh and long. There were stages of economic development through which this confederation had to go. Policies should be implemented in these stages were protection and free trade in sequence. For an underdeveloped or less developed economy in manufacturing, protection of native industry against economies developed in manufacturing was essential. At the stage of manufacturing, nation should give up protectionism and implement free trade policies in order to attain prosperity and development as history had taught. By deliberate and unnatural interventions to the system, nations could achieve the goal of development, but *laissez-faire* itself was also unnatural and based on the idea of a specific national interest. In any case, List's idea could not be criticized because of its 'unnaturalness' by the Classical School:

There was nothing natural about *laissez-faire*; free-markets could never have come into being merely by allowing things to take their course. Just as cotton manufactures –the leading free trade industry– were created by the help of protective tariffs, export bounties, and indirect wage subsidies, *laissez faire* itself was enforced by state.

(Polanyi, 1962: 139)

Actually, England had reached its position, at the top of manufacturing economies, and became the imposer and arbiter of universal free trade by implementing protective policies at first.

List's approach had been adopted by Ziya Gökalp. He was not alone in adopting List's thesis. Listian national political economy had a central position in his all encompassing thought. Durkheimian solidarism supported and guaranteed the place of List together with the Bücher's three-stage economic development

model. Key ideas of List such as *nation*, *productive powers* and *confederation of productive powers* were taken up by Gökalp but the last one was modified by the inclusion of solidarist corporatism *pace* Durkheim.

Accordingly, Industrialization was considered as the prime factor in the development process. This could be attained only insofar as state supported, protected and enhanced the entrepreneurial spirit on the industrialization path. That would also provide social harmony by restricting the actions of potential monopolies. So, instead of European type class struggle, a Durkheimian solidaristic-corporatistic collaboration would rise. Its combination with the organic division of labour, by the aid of national will, would help nurture the confederation of productive powers. By industrialization, natural resources would be fully used, and productive powers would be advanced. Hence development would work as a social transformative tool.

Gökalp understood the variation of national economy from one nation to another, and distinguished England's 'liberal' national economy from underdeveloped nation's protection based national economy. By adopting and combining the idea of Durkheim's solidarism and Bücher's stages of economic development, he elaborated the Listian theory without contradiction. Actually he incorporated Durkheim's and Bücher's ideas into Listian thought. He took solidarism as List's confederation of productive powers and imposed it to family, town and national economy. Once national economy had been reached, first production and accumulation would be realized, then the social state would come into the picture and provided a fair income distribution. Hence Gökalp was not content with List's theory, but he built on List's thesis by adopting other elements from different social scientists.

5.2 Economy Prior to National Economy

In the 19th century, Anglo-Ottoman Commercial Treaty, *Balta Limani* (1838) concluded with England, and a series of treaties signed with the European economies following the first one, opened the Ottoman economy to foreign

manufactures. Combined with the capitulations, which had been in existence from the 16th century onwards, the negative effect had been compounded. Ottomans liberalized foreign trade while European economies imposed high customs duties on foreign goods. As a result of privileges and exemptions given to Europeans, trade deficit began to grow, which was followed in return by indebtedness. At the end, Ottomans became financially and fiscally dependent. So, as in the cases of Methuen and Eden treaties, Ottoman economy was forced to produce agricultural goods, and provide raw materials to Europe and it was incorporated by Europe as a peripheral economy with an agricultural character. From Tanzimat era to the Young Turk Revolution, the protective policies of Germany changed the scene with its lessons, and the alternative approach known as national economy began to be strengthened. Their implementation would not be realized in the Ottoman Empire until the First World War.

5.3 Attempts Towards Industrialization

Industrialization attempts in the late Ottoman Empire represented the desire to emulate European developments. Developments like *Islah-ı Sanayi Komisyonu* (Commission for the Improvement of the Industry), *Teşvik-i Sanayi Kanun-ı Muvakkati* (Statutory Decree of Encouragement of Industry), etc. dealt with problems about industrialization whereas they did not consider material conditions of the economy (Toprak, 1985e: 1343). Without any change in traditional economic structure based on agriculture, and existence of market relations, monetization in national scale, there would be no reason to achieve industrialization. Ottoman economy would not attain the goal of industrialization by protective policies, considering the conditions of the economy because protective policies gain a meaning under the existence of development potential in the economy, i.e. the existence of, at least, infant industries. Without any emphasis on progress, the expansion in the volume of trade, realized in the 19th century, cannot be explained (Toprak, 1985e: 1343). It cannot be underestimated that the exports of Ottoman Empire between 1885 and 1991, rose by 70% (Tezel, 1986: 67). Ottoman transition from mere handmade production to industry first

began in 19th century. The main goal was to satisfy military needs that increased due to potential wars and improvements in European war industries (Toprak, 1985f: 1345).

Meanwhile, Ottoman intellectuals in the Tanzimat era favoured the Classical School. Liberal economy and comparative advantage were the key factors in their way of thinking. In their opinion, Ottomans should specialize in agricultural production as a peripheral component of the worldwide division of labour. They believed that traditional, self-sufficient economy could be expanded by liberal policies. For Cavid Bey, by improving agriculture and commerce, Ottoman economy could reach to developed countries' level. In this process, industry would be born naturally. Division of labour was the primary motive of all humanity on the way of progress. For that end, the Ottoman lands should be cultivated, and agricultural production should be raised. On the other hand, Şerif Efendi, Mizancı Murad, Ahmed Mithad⁴⁶, Musa Akyiğitzade, and writers at the Ottoman Newspaper of Agriculture and Trade criticized this opinion, and further they asserted that industry was essential for national prosperity and freedom. The problem was not the scarcity of opportunities, but of capital and of institutional organizations (Toprak, 1982: 108).

5.4 First Steps in the Course of Industrialization

In the Young Turk Period, the problem of industrialization was discussed. In the meantime, *Teşvik-i Sanayi Kanun-ı Muvakkatı* (December 1913) was enacted. *Teşvik-i Sanayi Talimatnamesi* (1914) followed. *Teşvik-i Sanayi Kanun-ı Muvakkatının Suret-i Tatbiki Hakkında Nizamname* (1 January 1917) was issued. Initially, particular sectors of the industry were planned to be protected against

⁴⁶ Ahmed Mithad (1844-1912) was in favour of a protective economic policy, and prohibitive customs duties followed by import substitution practices. In addition, he was one of the first intellectuals defending national economy in the Ottoman Empire. For a detailed framework on his thought in national economy, see François Georgeon's chapter entitled *Ahmed Midhat'a Göre Ekonomi-Politik*, (Georgeon, 1991/2006).

foreign manufactured goods according to legislation. According to three-part legislation, new manufactories would be exempted from customs duty, and investors would not pay tax for construction material and intermediate goods which were necessary for factory construction.

A statutory decree of war years included the application of exemptions and privileges to only Ottoman corporations. If the land of factory belonged to state, i.e. *mirî arazi* (demesne), it should be given to entrepreneur as a grant. If the intermediate goods, and raw materials were not produced within the economy, legislation allowed the duty-free importation of them. Materials needed for the construction of roads connecting factories to ports and each other would be imported without duties. The land essential for the construction for these roads would be given as grant. To benefit from these exemptions and privileges, the only condition for the factory was not to shut down (Toprak, 1985g: 1348-1352).

Although the legislation was very comprehensive and encouraged private investment in industry, it lacked the source. That is, the capital required to establish factories from the beginning was the missing part. Yet, it was the most important endowment in the business. Ottoman bourgeoisie, and national capital accumulation had not been formed sufficiently in 1913. Moreover, it would not reach to desired levels before the proclamation of the Republic, and *Étatiste* policies implemented before 1930's. In addition to required capital, legislation concerning the credit opportunities or protective measures for native entrepreneur against foreigners were also missing (Eldem, 1994: 61). Organizations like *Millî Fabrikacılar Cemiyeti* (Association of National Manufacturers) were established during the World War, and targeted to stimulate individual initiative in industry, but these enriched the supporters of CUP and helped to the formation of first steps for a Turkish-Muslim bourgeoisie.

The Young Turk era was the time interval in which awareness of industrialization among intellectuals was first formed. For the development, industrialization was a precondition. Although that idea had existed before 1908,

after that year, it became a general statement for the intellectuals of the era, but especially in wartime. At the beginning of the 20th century, unionists thought, population was not too high to make a shift of labour force from agriculture sector to industry. Otherwise, scarcity would emerge. Moreover, capital was also insufficient to establish new businesses, so it cannot be deduced that every policy of protectionism would bring about industrialization. Thus, lack of capital for investment raised the necessity and importance of foreign direct investment for industrialization. Furthermore, some asserted that insisting on protective policies would lead to inflation, and export oriented agricultural and industrial goods' power of competition would be weakened, so exports would decrease gradually.

In fact, from Tanzimat to the Young Turk Revolution, there was no systematic policy chain towards industrialization. Policies of CUP were also populist, and implemented merely by keeping in mind political conditions. National capital began to flow into economy only after the Young Turk Revolution (Eldem, 1994: 233-234). Until that moment, foreign capital was utilized in the economy, but the sectors in which foreign direct investment was engaged were services which were mainly railway, banking and insurance. Hence, not only industrial production but also agricultural production did not reach to desired levels of development. Investments canalized to these sectors were interrupted by continuous wars in the last decade of the Ottoman Empire. At the beginning of the 19th century, the structure of the Ottoman economy was not so different from its European counterparts, but at the beginning of the 20th century, Ottoman economy only held to its position, and even so it became an agricultural economy incorporated by the manufacturing economies of Europe.

Ottoman economy did not leave a legacy of developed industry, but a desire of industrialization to the Turkish Republic. Attempts towards industrialization did not reach their targets. At the very end of the Empire, trials to make investments in industry attractive, and establishing infant industries for the military needs were not sufficient due to high profit margin in service sectors

(Kepenek and Yentürk, 2008: 19-20). However wartime economy and policies implemented in that period served as a boost to domestic economy.

In the Young Turk period, Gökalp's ideas and the ideas of the contributors of especially *İktisadiyat* began to find their application in government policies. Trials for the creation of Muslim-Turkish bourgeoisie, protectionism by imposing high custom duties on imported goods, attempts to establish national banks and legislation began with the Encouragement of Industry resulted in the formation of the basic ingredients of economic development, namely economic development through industrialization.

Capital was a missing component the capital in the Ottoman Empire. Even in the first years of the Republic, this missing part could not be found. Hence, the soul of industrialization could not be achieved either by the Empire, or by the Republic until 1930's when the state decided to invest directly in industry. Indeed, the first decade of the Republic cannot be examined separately from the late Otoman Empire because Ottoman economic thought that had developed prior to World War I had lived up to the dismemberment of the Empire and continued its effect on the new Republic until the Great Depression. Hence, the year Great Depression occurred is a more accurate date for the endpoint of Ottoman economic legacy.

Cultural and social transformations that had begun in the previous century of the Ottoman Empire continued in the Republican era, but in an effective, serious and faster way. During the first decade of the Republic, not much had been done to improve the economy of the country, except *İzmir İktisat Kongresi* (İzmir Congress of Economics) (1923). Turkish Republic was integrated to the world economy without any additional economic instruments than those the Ottoman economy had already possessed. It was still an agricultural economy. Protectionist and *Étatiste* policies began to be implemented in the following decade. They emerged as a reaction to developed countries of the world economy within less developed economies. Although it was a worldwide trend, these

policies in Turkey are rooted nevertheless deeply in the Ottoman intellectual debates of the last few decades of the Empire. As a matter of fact, prohibitive policies of war years from 1914 onwards were also fashionable in all over the world. Hence, the practical legacy transmitted by the CUP, and theoretical legacy transmitted by Gökalp to the young Republic contributed to the economic development of the 1930's.

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APPENDIX: TEZ FOTOKOPİSİ İZİN FORMU

ENSTİTÜ

Fen Bilimleri Enstitüsü

Sosyal Bilimler Enstitüsü

Uygulamalı Matematik Enstitüsü

Enformatik Enstitüsü

Deniz Bilimleri Enstitüsü

YAZARIN

Soyadı : Ünal

Adı : Hüseyin Safa

Bölümü : İktisat

TEZİN ADI (İngilizce) : Friedrich List, Ziya Gökalp and the National Economy Thesis in the Ottoman Empire

TEZİN TÜRÜ : Yüksek Lisans

Doktora

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir.

2. Tezimin içindekiler sayfası, özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopi alınabilir.

3. Tezimden bir bir (1) yıl süreyle fotokopi alınmaz.

TEZİN KÜTÜPHANEYE TESLİM TARİHİ: