The Allocation of Capital in the Early Republic: The Credit and Participation Policies of Türkiye İş Bankası, 1924-1933

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Abstract: This article analyzes the mechanisms of capital allocation in the early Republican period through an examination of the credit and participation policies of Türkiye İş Bankası between 1924 and 1933. Its central argument is that, during this period, İş Bankası functioned not merely as a commercial bank that collected deposits and extended loans, but as an active institutional actor that shaped the direction of private capital. The study interprets early Republican economic policy not as a sharp rupture between the liberalism of the 1920s and the statism of the 1930s, but within the continuity of the

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idea of the national economy (*milli iktisat*). In this sense, the bank is treated as one of the institutional instruments through which the national-economy tradition inherited from the Second Constitutional Period was reformulated under Republican conditions. By reading the annual reports and balance sheets for 1924-1933 both quantitatively and qualitatively, the article draws an analytical distinction between credit policy and participation policy. Accordingly, while credit policy served a broader financing function directed especially toward commercial circulation, participation policy reflected the bank's preference for committing capital directly to fields it regarded as more selective, long-term, and strategic. The article further argues that the Great Depression of 1929 and the subsequent shift toward statism did not constitute a rupture that rendered İş Bankası obsolete; rather, they redefined its function in line with new objectives of industrialization and capital direction. Consequently, Türkiye İş Bankası is evaluated as a hybrid institution of capital allocation, situated in the permeable space between the state and private enterprise, and as an actor that influenced the sectoral and institutional distribution of capital in accordance with the principles of the national economy.

Keywords: National Economy (milli iktisat), Türkiye İş Bankası, Capital Allocation, Early Republican Period, Statism, Participation, Credit Policy

Introduction

Among the foremost economic problems facing the newly founded Republic of Türkiye was the question of how to mobilize the limited capital that remained after the wars and the liquidation of the capitulation regime. This was not merely a matter of insufficient accumulation; it was also an allocation problem, concerning which sectors, which actors, and which political-economic priorities the existing capital would be directed toward. This article aims to analyze the mechanisms of capital allocation in the early Republican period by following the credit and participation policies of Türkiye İş Bankası between 1924 and 1933. The conventional historiography of early Republican economic policy tends to draw a sharp line separating the so-called liberal years of the 1920s from the statism of the 1930s. Setting aside this framework of opposition, the present study proposes to read the period as the institutionalization, under Republican conditions, of the national-economy idea inherited from the Second Constitutional Period. Within this reading, the 1924-1933 interval becomes visible not as two disconnected policy segments but as a single process in which the same national-economy line renewed its instruments in response to changing economic conjunctures.

In order to trace this continuity through a concrete institutional case, Türkiye İş Bankası is a particularly suitable vantage point. Founded on 26 August 1924, the bank was one of the instruments through which the national-economy discourse's ideal of "creating domestic capital" was institutionalized by the cadres of the Republic. On the one hand, the bank performed the classical function of a commercial bank, collecting deposits and extending loans; on the other, it became directly involved in production relations by establishing participations or taking shares in existing companies across a wide range of fields extending from insurance to mining, from textile manufacturing to sugar, and from glass production to construction materials.

The study's basic approach is that, during this period, the bank functioned not as a passive intermediary that simply collected deposits and extended loans, but as an active institutional actor that shaped the direction of private capital through its credit-allocation decisions and participation choices. To ground this argument, the study draws an analytical distinction between credit policy and participation policy. Credit policy assumed a financing function directed toward broader economic circles, and especially toward commercial circulation; in this respect, the bank served as a supplier of liquidity that fed the everyday fluidity of the market. Participation policy, by contrast, rested on a different logic: the bank preferred to commit capital directly to fields it regarded as more selective, long-term, and strategic, making itself a direct party to production relations rather than merely intermediating capital flows. Following the two policy lines separately yields an analytical gain, making it possible to see together both the horizontal axis of capital allocation (its distribution across sectors) and its vertical axis (the choice between short and long maturities). The rupture produced by the Great Depression of 1929 also takes on a new form within this framework. The conventional narrative depicts the Depression as a break in which statism liquidated liberal policies and narrowed the field of private-public hybrid institutions such as İş Bankası. The study argues the opposite: the statist orientation that became pronounced after the Depression was not a rupture that eliminated the bank's function, but a transformation that redefined it in line with new objectives of industrialization and capital direction.

The adoption of the First Five-Year Industrial Plan in 1933 and the establishment of Sümerbank redrew the bank's field of action, but they did not end its role as an institutional instrument of the national-economy line. For this reason, 1933 is conceptualized in this study not as an "end" but as a threshold of transition.

The study's principal source is the annual activity reports published by İş Bankası between 1924 and 1933, together with their accompanying balance sheets. These documents are read both quantitatively and qualitatively. The quantitative reading follows the evolution of deposit and credit magnitudes over the years, the sectoral distribution of loans, and the institutional expansion of the participation portfolio. The qualitative reading incorporates into the analysis the board of directors' assessments of the period, the noteworthy orientations in credit policy, the explanations regarding the situation of the companies in which the bank held stakes, and the reports' reading of the general economic conjuncture. Reading these two planes together makes it possible to see the activity reports not merely as financial documents but also as instruments of the bank's strategies for justifying its own practice and presenting it to the public.

This source base, however, carries an inherent limitation that must be made explicit. The board reports were not neutral records but documents of institutional self-presentation, drafted to justify the bank's conduct before its shareholders and the wider public; as such, they tend toward an apologetic register and exhibit a selective silence on politically sensitive or unsuccessful undertakings. Reading them only at face value would risk reproducing the bank's own self-justification as analysis. The present study guards against this in two ways. First, it treats the qualitative claims of the reports not as testimony to be accepted but as discourse to be interpreted, attending as much to what the reports emphasize as to what they pass over in silence. Second, wherever possible, the quantitative series are corroborated against external and independent sources rather than taken solely from the bank's own publications: the balance-sheet figures and ratios are cross-checked against the reconstructions of Kocabaşoğlu et al. (2001), the contemporary assessments of Tahsin and Saka (1930) and of the expert commission led by Hines et al. (1936), the comparative banking data assembled by Tezel (2015), and the cross-institutional figures reported by Silier (1975). Where the bank's own accounts and these external readings diverge or where the former fall silent, the discrepancy is itself treated as analytically significant rather than smoothed over.

Within this entire framework, Türkiye İş Bankası is evaluated as a hybrid allocation institution, one situated in a permeable space that transcended the sharp boundaries between the state and private enterprise, and one that influenced the sectoral and institutional distribution of capital in accordance with the national economy. The bank's hybrid character stems not only from the fact that its legal status combined private and public elements, but also from the fact that its economic function integrated two distinct logics, classical banking and direct capital investment, under a single institutional roof. The study builds this argument across four sections. The first section discusses the conceptual and institutional continuity of the national-economy line extending from the Second Constitutional Period to the Republic, and situates the founding context of İş Bankası within this continuity. The second section examines the bank's credit policy between 1924 and 1933 in light of the activity reports, attending to the distinction between commercial, industrial, and agricultural financing. The third section is devoted to the participation policy of the same period, analyzing the course and strategic rationales of the partnerships in fields such as insurance, industry, and mining. The fourth section addresses how the statist orientation that became pronounced after the 1929 Depression redefined the bank's credit and participation strategies; it grounds the argument that this transformation was not a rupture from the national-economy line but an adaptation of it to new conditions. The conclusion assesses the extent to which this reading of the activity reports lends content to the concept of the hybrid allocation institution, and in what direction it corrects the established assumptions regarding the early Republican capital order.

The Economic Landscape of the Early Republic and the Founding of İş Bankası

When the Republic was proclaimed in 1923, a period of wars that had lasted more than a decade had come to an end. Yet the economic devastation caused by the wars, occupations, and demographic crisis was evident. Despite this, it is clear that the general outlook of the economy improved rapidly between 1923 and 1926. Although per-capita GDP estimates do not allow for precise measurement for the period under study, the available figures can be consulted to gain a sense of the general picture. In 1926 prices, per-capita income stood at 119 Turkish liras. In terms of the value of the Ottoman gold lira at that date, this figure corresponds to 15 Ottoman liras. The per-capita income calculated by Eldem for 1913 was 11 Ottoman liras. On this rough calculation, then, it may be said that, in terms of per-capita income, the destruction wrought by the First World War had been recovered by 1926. The Turkish economy grew at an average rate of 5.6 percent between 1926 and 1939. To offer an assessment of the general economic picture in this period, it may be said that economic growth was rapid in recovering from the destruction of the war. This economic growth, however, did not bring about a structural change. Although a certain degree of industrialization was observed in this period, agriculture would remain the dominant sector of the Turkish economy for some time to come (Tezel, 2015, pp. 132-134).

The monetary policy of the early Republican period, for its part, was conservative and cautious. Despite the growth in production volume, the Republican authority kept the volume of money almost constant over the 1923-1938 period. The paper-money volume of approximately 158 million liras inherited from the Ottoman State was kept constant even after the issuance of the Republic's banknotes in 1928. One of the principal reasons for this was that Ankara was deprived, until the 1930s, of a national bank that could manage monetary policy. A second factor was the knowledge that, in the periods when the Ottoman State had issued paper money, the value of that money had eroded rapidly as its quantity increased. The last Ottoman banknotes, which bear the distinction of being the first money of the Republic, had likewise suffered a serious loss of value owing to the continually increasing volume of emission during the war years and the well-known atmosphere of turmoil (Yapıcı, 2025). This being so, the Republican administration pursued a tight monetary policy at least until the years of the Second World War. The reason for this tightness, despite the economy's growing production volume, may have been partly a deficiency of economic knowledge. Indeed, according to economic theory, it is known that an increase in emission at the rate of growth will not generate inflation. Keeping the money supply constant in order to preserve the value of money, while the volume of exchange nonetheless grew, gave rise to financial institutions that would meet the liquidity needs of the markets. The 1920s were a period of considerable expansion in the Turkish banking sector. In this period, when central supervision was limited, the increase in the volume of money in circulation was 12 million liras, whereas deposits in banks rose by 135 million liras to reach 211 million liras (Tezel, 2015, p. 145).

Since it was difficult to meet the rising demand for capital with the existing banks, the number of banks also increased in this period. The number of national banks, which was 19 in 1924, rose to 44 by 1930. At the same time, the banks increased their deposit and creditor accounts roughly ninefold. Total borrowings, for their part, increased 4.5-fold (Tekeli and İlkin, 1997, pp. 193-194). All of this indicates the rise in demand for the factor of capital in the early Republican period.

One of the most important overarching items on the agenda of the newly founded Republican administration was the concept of nationalization. In the process of transition from empire to nation-state, there was a desire to reduce foreign control in the various sectors of the economy. Indeed, the very content of the concept of "foreign" had by then undergone a transformation. Whereas Ottoman subjecthood had encompassed a wide variety of religious and ethnic groups, the Republic of Türkiye presented a more homogeneous demographic structure. Capital, one of the most important factors of the economy, was likewise to be nationalized in this period. The weight of foreigners in the banking sector (in terms of the share of deposit ownership) fell from 78 percent in 1924 to around 14 percent in the 1950s. This transformation in the banking sector, the most important sphere of foreign-capital control in the Ottoman period, was perhaps the most important political-economic change of the early Republican period (Tezel, 2015, pp. 148-149).

The most important and emblematic institution of this transformation was, without doubt, Türkiye İş Bankası. İş Bankası was founded in Ankara about ten months after the proclamation of the Republic. The bank's first capital provider was Mustafa Kemal himself. During the years of the national struggle, part of the aid worth 500,000-600,000 liras that had come from the Muslims of India had been placed at the disposal of the Western Front Command before the Great Offensive. After the proclamation of the Republic, the unspent portion of this money was transferred back to Atatürk's personal account at the Ottoman Bank. The question of how to use this money was being considered by Uşşakizade Muammer Bey, who was at the time Atatürk's father-in-law and also one of the leading merchants of Izmir. Muammer Bey, who initially wished to put the money to use by establishing an import-export company, was sent by Atatürk to Celal Bayar. As a result of the consultation with Bayar, it was decided that it would be more fitting to use the money to establish a national bank. Following these deliberations, at meetings held in Çankaya, the name "İş Bankası" (Banque d'Affaires de Turquie) was proposed by Hasan Saka, who was at the time Minister of Trade. Again, at one of the Çankaya meetings, while Celal Bayar was appointed director-general by the Gazi, the task of preparing the founding statute was entrusted to Hasan Saka, the man who had given the bank its name (Kocabaşoğlu et al., 2001, pp. 1-15).

İş Bankası was the largest financial establishment of the early Republican period to be founded with private capital. Its founding statute was approved by the Council of Ministers on 20 August 1924, and the bank was definitively established on 26 August 1924. The purpose for which İş Bankası was founded was set out in Article 2 of its principal statute as follows: to carry out general banking transactions; to undertake all kinds of agricultural, industrial, and mining enterprises and public-works projects; to produce and manufacture all kinds of materials and to engage in contracting work; to form companies in order to conduct the activities enumerated above; and to carry out and conduct various industrial and commercial transactions, whether on its own account or jointly with domestic and foreign institutions, or in the name and on the account of such institutions. In addition, these articles did not limit the bank's activities. According to the statute, the bank was authorized to enter into any business it deemed necessary. Article 5 of the 1924 statute of Türkiye İş Bankası bound the institution's initial financial skeleton within a legal framework. Under the relevant article, the bank's nominal capital was structured as a total of 1,000,000 Turkish liras over 100,000 shares with a unit value of 10 Turkish liras. As required by legal procedure, the one-quarter cash capital share demanded of the partners (250,000 Turkish liras) was paid at the moment of founding directly from the personal funds of Mustafa Kemal Atatürk. The distribution of these issued shares to the national market, for its part, displayed a regional differentiation. While the shares readily found buyers in the Ankara financial market, where the bank's economic mission was felt most closely, the registration and sale transactions of the shares issued in provincial and coastal commercial centers such as İstanbul, İzmir, Samsun, and Bursa proceeded at a more cautious and slower pace (Özer, 2010, pp. 153–154).

The economic-history literature characterizes the 1920s as the liberal period and the 1930s as the period of statism that emerged after the 1929 Depression. Yet, as is concretely seen in the example of the founding of İş Bankası, the state intervened in the economy to the extent of its capacity. Çankaya, which had been involved in the founding of the bank, also became involved in the credit and participation moves to be made in the subsequent period. This interventionist attitude was guided primarily by the priority of nationalizing the economic factors. This understanding was inherited by the Republican administration from the "national economy" policies that had emerged after the Second Constitutional Period. National-economy policies, which had initially advanced through merchants, also turned toward the banking sector with the outbreak of the First World War. Indeed, the government, unable to obtain support on the matter of financing the war from the Ottoman Bank, which was foreign-capitalized but held the privilege of being the national bank, undertook an initiative to establish a bank whose capital was also national. The İtibar-ı Millî Bankası, founded in 1917, was envisioned as a replacement for the Ottoman Bank, whose privilege was due to expire in 1925. Founded during the war with a capital of 4 million liras, the bank had rapidly opened branches with the support of the government. Cavit Bey, the Minister of Finance of the Committee of Union and Progress, was the chairman of the bank's board of directors. From its very founding, the bank was promoted as the national bank of the future (Toprak, 1995, pp. 62-65). The same continuity is observable in foreign-capitalized joint-stock banks that bridged the imperial–Republican divide, such as the Turkey/Turkish Trade and Industry Bank (TTIB/TUTIB), whose late Ottoman institutional templates persisted well beyond 1923 (Serdaroğlu, 2025).

This continuity was not confined to nationally capitalized institutions such as the İtibar-ı Millî Bankası or İş Bankası. As Serdaroğlu (2025) demonstrates, foreign-capitalized joint-stock banks registered under domestic law could embody the same hybrid logic, combining international, predominantly French, capital with the legitimizing discourse of the national economy. The Turkey Trade and Industry Bank (1910-1914) and its Republican-era successor, the Turkish Trade and Industry Bank (1924-1937), illustrate how late Ottoman institutional templates were adapted rather than dismantled under Republican legal and economic frameworks, persisting through a prolonged liquidation well into the late 1930s. Read alongside these cases, İş Bankası appears not as an isolated experiment but as the nationally capitalized variant of a broader institutional family in which state endorsement, transnational or private capital, and national-economy discourse were fused within a single organizational form. The hybridity that this study attributes to İş Bankası thus characterizes the wider Ottoman-Republican financial continuum, spanning both domestically and foreign-financed ventures.

The application of national-economy policies continued during the Republican period. Türkiye İş Bankası, too, was founded as a commercial bank and as part of the drive to nationalize capital. In this period, great incentives and privileges were granted to private enterprise. Within the scope of nationalizing capital accumulation, İş Bankası was accorded a broad sphere of initiative. Indeed, no legal regulations were even introduced for the bank's activities by means of a banking law; banks were made subject to the existing commercial code (Kocabaşoğlu et al., 2001, p. 18).

The Factor of Capital in the Early Republican Period: An Assessment through the Credit and Participation Policies of İş Bankası

The economic activities of Türkiye İş Bankası during the 1924-1933 period rested on two complementary policy axes: lending and participation investment. Although these two instruments appear as separate items on the balance sheet, they are not functionally independent of one another. Together, it may be said, they were used to form the basic financial infrastructure of the Turkish-Muslim commercial and industrial bourgeoisie that the state sought to build during the first decade of the Republic.

The bank's own definition of its founding purpose clearly reveals this intention: beyond the important assistance it provided by extending credit to private entrepreneurs in the field of national development, the bank aimed to render great assets to the country through the institutions it created by means of direct establishment and participation (Türkiye İş Bankası, 1925). This expression contains clues not to a purely commercial conception of banking, but to an explicit political preference oriented toward the formation of a particular class.

The bank's participation in its first year of activity was political rather than economic. That Türkiye İş Bankası carried out its first participation with the Karagöz newspaper, then under the management of Burhan Cahit (Morkaya) Bey, was not an accidental choice in terms of the conjuncture of the period. This well-established satirical publication, which had continued its publishing life since 1908, addressed a wide audience and surpassed many of the period's daily newspapers in circulation. It is known that Karagöz, published under the management of Burhan Cahit Bey from 1918 onward, established an organic bond with the Republican People's Party in the period following the proclamation of the Republic.

İş Bankası's financial initiative toward this publication took shape in accordance with a verbal order from the party. As a result of this directive, 60 of the existing 100 shares of the newspaper, which was structured as a limited partnership, were taken over by İş Bankası on behalf of the party. In 1926, Burhan Cahit Bey also brought out another newspaper, named Milliyet, in Istanbul. In 1928, after the adoption of the Latin alphabet had reduced its sales figures and left it in financial straits, İş Bankası became a partner in the newspaper by purchasing 20 percent of its shares. İş Bankası also maintained good relations with media organs other than these two publications (Kocabaşoğlu et al., 2001, p. 150).

It is worth pausing to consider how these media stakes relate to the framework of capital allocation that this study theorizes, since, at first sight, they appear to be instances of pure political instrumentality rather than of economic placement. The Karagöz and Milliyet participations were indeed political in motivation, undertaken on the party's instruction and yielding little or no commercial return; to treat them as ordinary profit-seeking investments would misread them. Yet they are not thereby external to the allocative logic the article describes. The argument of this study is precisely that İş Bankası functioned as an institution that directed capital according to criteria other than market return, and the deployment of resources toward outlets aligned with the governing party is best understood as the limiting case of that same logic rather than as a separate category. Where the insurance, port, and mining participations allocated capital to nationalize foreign-dominated sectors or to build productive capacity that did not yet exist, the media participations allocated it to consolidate the political-ideological conditions under which the national-economy program operated. All three are facets of a single conception in which the bank's placements served a constructive, state-directed purpose; the media stakes simply make visible, in their starkest form, that the allocative criterion was never confined to commercial profitability. Read this way, they strengthen rather than complicate the central claim, since they show how far the bank's departure from market logic could extend.

In 1925, the first full year of activity following the founding of Türkiye İş Bankası, its credit and capital participations exhibited full accord with the "national economy" paradigm of the early Republican period. As of 1925, the bank did not remain merely a conventional credit institution; it assumed the role of a direct entrepreneur and founding actor in strategic sectors. In this context, the establishment in 1925 of the Anadolu Joint-Stock Turkish Insurance Company with a capital of 500,000 TL, and the bank's becoming a founding partner in the Turkish joint-stock companies that held the monopoly over the Istanbul and Izmir port operations, were concrete manifestations of the macroeconomic will to nationalize the finance and logistics sectors. Similarly, the capital contribution made to the Bursa Textile Turkish Joint-Stock Company carried the aim of supporting the budding of domestic industrial production. The bank's activities in the fields of mining and infrastructure are also striking: the acquisition of the argentiferous lead-mine concession at Bolkardağ and its transfer to a company with 1 million TL of capital, in which the bank held a 10 percent share, together with the taking over of a ninety-nine-year coal-field concession in Zonguldak, indicate that İş Bankası held a central mission in financing the era's energy and subsoil-resource policies. As a different sector, the 10 percent participation made in the Elektro-Radyo company, which had begun the construction of a factory in Eskişehir, may be interpreted as part of the institution's portfolio-diversification strategy, but it may equally be read as an extension of industrialization policies. As the financial output of this intense participation activity and active credit policy, the bank's 1925 balance-sheet total reached 12,899,338.07 TL, while the net profit for the period stood at 402,523.61 TL (Türkiye İş Bankası, 1926).

The year 1926, occurring before the Great Depression and after the bank had completed its founding process, is a good example for tracing the bank's credit policies. In that year's activity report, while attention is given to intentions aimed at nationalizing foreign trade, the most important sphere of foreign-capital dominance, the sectors deemed suitable for foreign investors to operate in are also enumerated. The promotion of exports was pursued by means of supporting, through credit, producers of goods such as mohair and wool from Ankara; cocoons, tobacco, and olive oil from Bursa; and grapes, figs, opium, and tobacco from Izmir (Türkiye İş Bankası, 1927).

In addition to these, the 1926 activities of Türkiye İş Bankası attest that the institution functioned not only as a commercial bank but also, in the early Republican period when a central bank did not yet exist, as a "public actor" attentive to macroeconomic stability. In the bank's 1926 report, the emphasis placed on the importance of the foreign-trade balance and a balanced-budget policy, the underscoring of the critical role that the treasury balance held for economic independence in the absence of a state bank (a central bank), and the attention given to the question of the stability of money (its value) all reveal the institution's intellectual and functional weight in national economic policy. This macroeconomic mission was supported by the growth in the bank's own financial structure. During this period, when the nominal capital reached 2 million TL, and the reserve fund reached 253,000 TL, geographic coverage was expanded through the Istanbul, Izmir, and Bursa branches. The decision taken at the end of the period to double the bank's capital, the offering of 100,000 new shares (each of 10 TL), and the granting of a 6 percent interest guarantee on the shares paid up during 1926 in order to encourage investors may be said to constitute a distinctive example of financial engineering aimed at broadening domestic capital accumulation in an environment where capital markets had not yet formed (Türkiye İş Bankası, 1927).

Table 1: ***Percentage Distribution of Türkiye İş Bankası's Assets (1924-1930)***

Year	Liquid Resources (%)	Credit Portfolio (%)	Participations (%)	Fixed Assets (%)
1924	64.86	32.51	0.82	0.29
1925	34.83	56.31	6.08	0.61
1926	28.15	65.15	3.15	1.54
1927	37.76	49.96	5.82	1.85
1928	30.78	58.16	4.52	2.15
1929	19.75	55.64	10.64	3.82
1930	17.85	55.00	12.38	4.52

Source: Kocabaşoğlu et al. (2001, p. 178); cf. *Türkiye İş Bankası On Yılı 1924-1934* (1934) and the Annual Balance Sheets of Türkiye İş Bankası, 1924-1933.

In the table above, the percentage distribution of assets on İş Bankası's balance sheet over the relevant years can be traced. When this table, and the balance sheets in general, are considered, a problem from the standpoint of banking becomes apparent. As the bank's liquid resources decrease, the proportion of the participation item, which signifies long-term commitment, increases. This problem, characterized as a maturity mismatch, leaves resources vulnerable to withdrawal at any time while lengthening placement maturities. This in turn carries great risks. As is evident here, İş Bankası served as the capital-allocation instrument of the founding ideology (Kocabaşoğlu et al., 2001, p. 184).

To gauge how exceptional this posture was, the bank's liquidity profile must be set against the period's banking norms. The orthodox understanding of the day held that an institution accepting deposits from the public was obliged, above all, to preserve its capacity to meet withdrawals and to confine its lending to the short-term commercial credit the country's trade required. The expert commission led by Hines, reporting on the Turkish economy in the mid-1930s, articulated this norm directly when it cautioned, without naming the bank, that however valuable a credit institution's assistance to national development might be, it should not be carried so far as to compromise the obligations and responsibilities the institution owed to its depositors (Hines et al., 1936, p. 63). Measured against this standard, İş Bankası's commitment of resources to participations was indeed unusual. The ratio of participations to equity makes the point starkly: rather than confining its long-term commitments within the cushion of its own capital, the bank in several years let them exceed equity altogether, the ratio reaching roughly 116 percent in 1925 and again in 1929, so that the surplus could only have been funded from the deposit base (Kocabaşoğlu et al., 2001, p. 179). The comparison should not be overdrawn, since other national banks of the period, pursuing the same "business bank" model, also took part; what distinguished İş Bankası was the scale and persistence of the practice and its willingness to sustain it through the crisis years. The bank's risk posture, in other words, departed consciously from the prudential norm of its day, and it is precisely this departure that marks its participation policy as an instrument of allocation rather than ordinary commercial banking.

One reason İş Bankası placed such weight on participation moves was that it pioneered the concept of the "business bank", a concept that had hitherto been little developed in the Turkish banking sector. Such banks seek to earn profit not only through credit, as commercial banks do, but also by participating in companies of every kind. Indeed, İş Bankası likewise made participations in different sectors, ranging from mining to textile manufacturing (Tekeli and İlkin, 1997, p. 189).

The most important structural development, constituting a turning point within the early-period growth strategies of Türkiye İş Bankası, was its 1927 merger with the İtibar-ı Millî Bankası. According to the agreement concluded, as of 1 July 1927 the İtibar-ı Millî Bankası was incorporated into Türkiye İş Bankası together with all the asset and liability items appearing in its closing balance sheet of 30 June 1927. This merger and transfer process was grounded on certain rational principles within the framework of the period's capital-market conditions and legal regulations. The fact that, in the integration timetable, only half (50 percent) of the İtibar-ı Millî Bankası's nominal capital was in a paid-up state made a technical capital rationalization and accounting harmonization necessary. Under the provisions of the agreement, the cash capital shares that the İtibar-ı Millî shareholders had actually paid to the institution were replaced with an equivalent amount of Türkiye İş Bankası shares (Türkiye İş Bankası, 1928). This method of share exchange both prevented losses of rights for the existing partners and, without giving rise to a fictitious capital increase, allowed the equity structure of Türkiye İş Bankası to expand and consolidate on the basis of real values.

This merger did not remain, for İş Bankası, merely a capital increase or a growth of the balance sheet. During its founding period under the government of the Committee of Union and Progress, the İtibar-ı Millî Bankası had had an unwritten objective of being transformed into a future central bank. İş Bankası became the Republican-era successor to this objective, and a few years after the merger it also took an active role in the preparations for the establishment of the Central Bank (Tekeli and İlkin, 1997, p. 189).

Crisis, Transformation, and the Credit-Participation Policies of İş Bankası during the Great Depression

The World Depression of 1929 is one of the most important economic turning points of the twentieth century. The Great Depression experienced by the capitalist world also made its effect felt in Türkiye, which was an open economy. This section addresses the effects of the recession caused by the Depression on banking, and more specifically its effects on İş Bankası's character as an institution for the allocation of capital through its credit and participation policies.

Turkish banking, in general, experienced a contraction in the early 1930s due to the Depression. Total deposits, which were 211 million liras in 1929, fell to around 184 million liras in 1932. A similar picture is apparent when one looks at credit: the total credit volume, which was 214 million Turkish liras in 1930, declined to 175 million Turkish liras in 1932. Yet, owing to deflation (a fall in the general price level), the most typical feature of the 1929 Depression the purchasing power of the deposits and loans held in the banks did not diminish (Tezel, 2015, p. 147).

The reflection of the Depression in İş Bankası's balance sheets, in the credit item, took the form of a decline in the proportion of commodity-backed credit and a rise in the proportion of open (unsecured) credit. Within total loans, the proportion of commodity-backed credit, which was at its peak at 29.16 percent in 1927, fell to as low as 16.25 percent in 1930. In the same span, open-credit proportions rose from around 1.57 percent to 6.85 percent (Kocabaşoğlu et al., 2001, p. 180). The contraction of secured commodity credit together with the expansion of unsecured credit is a direct reflection of the cash shortage in the market and of the decline in borrowers' capacity to produce collateral. When we follow the share of participations within the balance-sheet assets, however, we do not see the same situation. The proportion of participations increased steadily. The share of participation within total assets, which was at around 5 percent in 1927, rose to about 14 percent in 1931. This increase shows that paid-in capital and the reserve fund were largely transferred to the participation item. Indeed, in some years, it is striking that, because equity proved insufficient, the participations were financed from the deposit item. This situation shows that the bank transferred its resources to the long-term and illiquid participation item. Indeed, when we also add to this equation the information that public deposits were channeled to İş Bankası after 1929, we see that İş Bankası did not lose its character as a capital-allocation institution even during the Depression period (Kocabaşoğlu et al., 2001, pp. 178-179; Türkiye İş Bankası, 1930).

Table 2: ***Balance-Sheet Summary (TL)***

Year	Balance-Sheet Total	Total Deposits	Total Loans[1]	Net Profit	Paid-in Capital
1924	3,623,148	2,474,447	462,654	17,405	1,000,000
1925	12,899,338	8,061,378	3,833,211	402,524	1,000,000
1926	30,076,174	14,247,291	9,370,896	830,752	2,000,000
1927	53,723,022	23,907,202	12,133,843	1,036,158	4,000,000
1928	62,969,861	34,588,898	17,696,919	1,362,481	4,000,000
1929	76,525,358	43,839,657	21,760,177	1,807,119	4,000,000
1930	78,093,576	42,917,975	21,943,693	816,516	5,000,000
1931	75,278,239	39,306,278	20,509,476[2]	811,097	5,000,000
1932	77,064,566	43,919,664	20,977,079[2]	605,741	5,000,000
1933	88,474,426	~48,996,224	~30,650,000[3]	616,755	5,000,000

[1] Total of debtors' current accounts; the item of debtors arising from guarantees is excluded. [2] In 1931-1932, the credit items are consolidated as "debtors' current accounts" and "advances." [3] The 1933 figure is an estimate, since the balance-sheet format (assets/liabilities) changed in that year.

Source: Board of Directors' Reports of Türkiye İş Bankası, 1924-1933.

Before the trends in this table are interpreted, a caveat about the comparability of the series is in order, since several of the claims that follow depend on it. As the notes to the table indicate, the loan figures are not defined consistently throughout the decade. Through 1930, the credit total reported here corresponds to debtors' current accounts, excluding the debtors arising from guarantees; for 1931 and 1932, the bank consolidated its credit items under the headings of debtors' current accounts and advances; and in 1933, the balance-sheet format itself was reorganized, so that the loan figure for that year is an estimate rather than a directly reported magnitude. These definitional shifts mean that the loan series, in particular, should be read as broadly indicative of orders of magnitude and direction rather than as a strictly continuous, like-for-like measure, and the same caution applies, to a lesser degree, to the balance-sheet total once the 1933 reorganization is reached. The series for deposits, net profit, and paid-in capital are more stable in definition and bear the interpretive weight more securely. Accordingly, the argument below rests chiefly on the movements in deposits, profit, and equity, and on the more robust ratios derived from them, while the loan figures are used to corroborate direction rather than to support precise year-on-year comparisons. The qualitative claim that matters for the analysis that lending stagnated or contracted while participations continued to expand- does not hinge on the exact loan totals for 1931-1933 and is independently supported by the asset-composition data of Table 1 and by the board reports' own account of a "contraction of business volume."

We see that in the face of the 1929 Depression, İş Bankası increased the weight it placed on participations. At the same time, it also sought to increase its equity. The efforts to increase equity are connected to the aim of reinforcing the balance sheet and presenting an image of a sound institution during the crisis period. Although İş Bankası's net-profit ratio fell during the Great Depression, the bank's balance sheet did not turn to the loss side. Participations had a large share in this. Indeed, according to Celal Bayar's statements, the bank's profit was not large, and the reason for this profit lay in the income obtained from participations rather than from conventional banking activities. The share of participations within net profit increased considerably from 1929 onward. One reason for this may also be that the bank's operational expenses increased in connection with a continually rising number of personnel and the new branches opened (Kocabaşoğlu et al., 2001, pp. 182-183).

When we compare İş Bankası's 1929 financial performance with that of the other important banks operating at the time, we see that its profit ratio relative to paid-in capital was high. For 1929, the profit ratio relative to paid-in capital of the Ziraat Bank, then the most important state bank, was 5.9 percent. Since this bank, which extended credit mostly to the agricultural sector, had as its customer base the segment most aggrieved by the Great Depression, the decline in its profit ratio is to be expected. This ratio was 3.6 percent at the Industry and Mining Bank and 12 percent at the Emlak ve Eytam Bank. When we look at the private banks, we find ratios of 15.1 percent at the Adapazarı Turkish Trade Bank and 12.5 percent at the Akşehir Bank, both local banks. By contrast, İş Bankası's profitability ratio relative to paid-in capital in 1929, at 34.1 percent, remained considerably above that of its peers. As stated above, the contribution of participation policies to this situation cannot be denied (Silier, 1975, p. 517).

The force of this cross-institutional comparison should not be overstated, since it rests on a single year. A snapshot taken in 1929 is vulnerable to year-specific idiosyncrasy, and a comparable, fully harmonized cross-bank series for the adjacent years is not available in the sources consulted here. What the bank's own accounts do allow, however, is a check against its immediately surrounding performance, and this check confirms that the 1929 figure was not a one-off artifact even as it cautions against treating its exact level as durable. The ratio of net profit to equity, which stood near 34 percent in 1929, fell sharply to about 10.5 percent in 1930 as the Depression deepened and as the denominator was enlarged by the deliberate strengthening of equity; the high pre-crisis readings of the mid-1920s (above 80 percent in 1925 and around 59 percent in 1926) likewise show that the bank's profitability moved within a wide band over the decade (Kocabaşoğlu et al., 2001, p. 182). The comparative point therefore holds in its qualitative form: İş Bankası remained markedly more profitable than its peers at the onset of the crisis, and participation income was central to this, but the precise 1929 margin over other institutions should be read as indicative rather than as a stable structural constant.

One of the important indicators in the table above also becomes pronounced in the rows after 1929, that is, at the point where the growth curve breaks. Here, a rupture supporting the theme of "crisis and transformation" can be read. The stagnation in the course of the balance-sheet total and of deposits is an important reflection of this: the balance-sheet total, which was 76.5 million in 1929, rose to 78 million in 1930 and then receded to 75.3 million in 1931, but regained momentum at 88.5 million in 1933. A similar stagnation is seen on the deposit side; the level of 43.8 million in 1929 remained confined within the same band throughout 1930-1932. This stagnation is a direct reflection in the balance sheet of the phenomenon of "contraction of business volume," as attested by the 1932 Board of Directors' Report (Türkiye İş Bankası, 1933).

Conclusion

This study has treated the credit and participation policies of Türkiye İş Bankası during the 1924-1933 period as a vantage point for understanding the mechanisms of capital allocation in the early Republic. Reading the activity reports and balance sheets, both quantitatively and qualitatively, has revealed that, in this period, the bank functioned not only as a passive intermediary that collected deposits and extended loans, but also as an actor that effectively directed the sectoral and institutional distribution of capital. The analytical distinction drawn throughout the study between credit and participation policies has shown that this directing function operated through two distinct logics: while credit policy assumed a horizontal, broad-based financing function that fed the everyday fluidity of commercial circulation, participation policy became pronounced as a selective and long-term instrument of intervention through which the bank committed capital directly in fields it regarded as strategic.

Tracing these two lines has brought to light a founding intention that pervaded the bank's activities. The partnerships, beginning as early as 1924 with the politically motivated Karagöz participation and expanding in 1925 across a range extending from insurance to port operation, and from textile manufacturing to mining, can be explained not by the mere pursuit of profit but by the ideal of nationalizing the fields dominated by foreign capital and of constructing a domestic entrepreneurial class. The goal expressed in the bank's own reports, to bring "great assets to the country through the institutions it created by means of establishment and participation", is the form this intention took in institutional discourse. In this respect, İş Bankası became the strongest institutionalized instrument, under Republican conditions, of the national-economy line inherited from the Second Constitutional Period.

The study's central concept, the hybrid allocation institution, acquires concrete content in light of these findings. The bank's hybrid character did not stem merely from the fact that its legal status combined private and public elements; the principal source of this character was that it united classical commercial banking and direct capital investment under a single institutional roof. The course of its asset distribution over the years confirmed this hybridity quantitatively: while the share of liquid resources receded from the level of 64.86 percent in 1924 to 17.85 percent in 1930, the share of participations rose from 0.82 percent to 12.38 percent. This preference, which carried the risk of a maturity mismatch for a commercial bank, was not a weakness from İş Bankası's standpoint but a direct indicator of its function as the capital-allocation instrument of the founding ideology. By consciously binding its short-term and withdrawable resources to long-term investments of low liquidity, the bank undertook a redirection of capital that the market did not generate of its own accord.

The effect of the 1929 Great Depression on this structure constitutes one of the study's most important findings. The Depression affected the bank's two policy arms in different directions: on the credit side, as commodity-backed credit contracted and unsecured open credit expanded, the circulatory function retreated to the defensive; on the participation side, the portfolio continued to grow and indeed became the principal source of the bank's net profit. The decisive share of participation income in the bank's not passing into loss, despite stagnation in the balance-sheet total and deposits and a sharp decline in net profit, proves the load-bearing function of this arm during the crisis period. The Depression, therefore, was not a rupture that narrowed the field of hybrid institutions, as the conventional narrative claims; on the contrary, it made visible that İş Bankası maintained its character as a capital-allocation institution even under crisis conditions.

These findings necessitate correcting two established assumptions concerning the early Republican capital order. First, the supposed sharp break between the liberalism of the 1920s and the statism of the 1930s loses its validity in the case of İş Bankası. The involvement of Çankaya in the bank's credit and participation decisions from its founding onward shows that the ostensibly liberal 1920s in fact contained a marked state direction. Although the 1933 First Five-Year Industrial Plan and the establishment of Sümerbank redrew the bank's field of action, they did not end its role as the institutional instrument of the national-economy line; for this reason, 1933 is not an end but a threshold of transition. Second, early Republican banking should be read not merely as a deposit-credit mechanism but as an allocation order that determined the direction of capital. İş Bankası is both the subject and the clearest example of this order: the bank, which united credit and participation as the two arms of a single accumulation strategy, should be evaluated as a hybrid allocation institution that, in the permeable space between the state and private enterprise, shaped the sectoral and institutional distribution of capital in accordance with the national economy.

It must also be acknowledged that this framework has limits arising from its reliance on the ten-year trajectory of a single institution. İş Bankası's exceptional position, its having been able, as a privately capitalized establishment, to make a notable contribution to the accumulation of industrial capital through participation, distinguishes it from the other banks of the period, and therefore complicates the generalization of the conclusions drawn here to the entire banking sector. To test the explanatory power of the concept of the hybrid allocation institution, there is a need for studies examining, in comparative fashion, the credit and participation practices of the period's public banks, such as the Ziraat Bank and the Industry and Mining Bank, together with locally capitalized commercial banks. Even so, the case of İş Bankası, in that it offers a concrete and institutionally traceable answer to the question of how and by whose hand capital was directed in the early Republic, constitutes a fruitful point of departure for this broader research agenda.

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Ethical Statement	İt is declared that scientific and ethical principles have been followed while carrying out and writing this study and that all the sources used have been properly cited
Author Contributions	Muhammet Ali Yapıcı (MAY) was responsible for the conception and design of the research, data collection and analysis, and the writing of the manuscript, as well as its submission and revision. GÜ contributed to the study through supporting input during the review and refinement of the manuscript.
Data Collection	MAY (%95),GÜ (%5)
Data Analysis	MAY (%95),GÜ (%5)
Research Design	MAY (%95),GÜ (%5)
Writing the Article	MAY (%95),GÜ (%5)
Article Submission and Revision	MAY (%95),GÜ (%5)
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