ERC Working Papers in Economics 23/05
November / 2023

The 'Missing Middle': A Historical-Institutional Perspective on the Stagnation of Small and Medium Enterprises in Turkey

Seven Ağır
Middle East Technical University, Faculty of Economics and Administrative Sciences
Department of Economics, Ankara, Turkey
E-mail: sevenag@metu.edu.tr

The 'Missing Middle': A Historical-Institutional Perspective on the Stagnation of Small and Medium Enterprises in Turkey[1]

Seven Ağır (METU)
Middle East Technical University, Faculty of Economics and Administrative Sciences,
Department of Economics, Ankara, Turkey. e-mail: sevenag@metu.edu.tr

Abstract

The small and medium-sized enterprises might play an essential role in the economy of a developing country. Yet, in developing countries, relatively fewer firms have been able to transition from micro enterprises focusing on survival to small and medium enterprises with higher capacity for innovation and job creation. This problem of the 'missing middle' has been identified as one of the barriers to increasing economic prosperity and therefore the 'reasons' underlying it have been examined in studies on various parts of the developing world. This study examines the 'missing middle' problem from a historical-institutional perspective by focusing on the underutilization of a novel form of business organization, i.e., PLLC in Turkey. Based upon a novel dataset of firm creation and desk research on legal changes in Turkey during 1957-1994, the study demonstrates the 'missing' PLLCs and discuss the potential factors underlying legal stagnation.

[1] This paper is part of a book project, being written jointly with Cihan Artunc (Middlebury College). Various stages of the research has been supported by European Comission CIG Project, EVOBUSORG (2013ABH67840006) and the Turkish National Council of Science and Research TUBITAK (220K054).

1. Introduction

The small and medium-sized enterprises (SMEs)[2] may play an essential role in the economy of a developing country. While some SMEs contribute to economic development by providing 'Schumpeterian' entrepreneurship abilities (i.e., they trigger innovation and boost productivity), others pay a role by helping economic actors adjust to market pressures (i.e., they react to competitive pressures and contribute to job creation). In developing countries, however, there are also many 'poverty-driven' small enterprises, i.e., firms not initiated by 'enterpreneurial' drives such as being a carier of new technology, skills, and capabilities; but merely as a form of 'self-employment,' resulting from lacking economic development combined with lacking employment opportunities.[3] Studies show that success of 'normal' or 'Schumpeterian' SMEs has been important for long-term catching-up in many countries. Yet, in developing countries, relatively fewer firms have been able to transition from micro enterprises focusing on survival to small and medium enterprises with higher capacity for innovation. This problem of the 'missing middle' has been identified as one of the barriers to increasing economic prosperity and therefore the 'reasons' underlying it have been examined in studies on various parts of the developing world (Tybout 2000, Berry, 2002, 2011; Levy et al., 1999; Phillips & Bhatia-Panthaki, 2007).

Recent research on the underutilized potential of SMEs as a source of job creation and innovation focused on their institutional embeddedness in addition to the well-known factors such as access to finance, skill-level of the labour force, certain factors associated with external economies of scale and scope (Herr and Nettekoven 2017). In particular, there are two theoretical explanations for the 'missing middle' problem (Hsieh and Olken 2014): A strand of literature argues that small firms are disfavored in low-income countries by lack of access to financial resources and therefore face difficulties in growing to become middle-sized firms. Another theoretical framework built upon dual economy model emphasizes that medium and large firms in poor countries face fixed costs or constraints that small firms do not face (i.e., large firms are disfavored due to taxes or regulations) Thus there are fewer incentives for these firms to get large.

[2] The category of small and medium-sized enterprise encompasses both micro-enterprises with just a few employees but also successful enterprises with a large number of employees.

[3] As Herr and Nettekoven put it (2017: 3) "poverty-driven SMEs are usually not innovative or do not have the potential to innovate or increase productivity. They often survive on the basis of cheap labour, which, in some countries, included child labour and other exploitative working conditions. To that end, they do not contribute to either economic or social upgrading."

While there is still extensive debate on what characterizes the middle missing problem and whether the empirical evidence supports it,[4] the historical or 'long-term' perspective has remained scant. In particular, there has been few studies on the role that legal aspects of the 'institutional setting' might have played. In addition, in the Turkish context, despite many studies on the SME firm dynamics and obstacles to growth and innovation of the small and medium enterprises (Taymaz 1997, Taymaz 2005, Seker and Correa 2010), there are few studies that directly examine the factors underlying 'missing middle' problem.[5] In this paper, we do not attempt to provide a comprehensive presentation of the missing middle problem in the Turkish context. But examining the evolution of business law in Turkey, in particular the menu of legal forms of business organisations from a long-run perspective, we provided insights on how 'legal institutions' maay be relevant for the 'missing middle' problem.

Recent literature in economics views legal institutions as important determinants of long-run economic and financial development. According to this view, legal innovations concerning business forms such as corporation fostered growth by allowing entrepreneurs to lock in capital, prevent untimely dissolution and take advantage of limited liability. One branch of the literature claims that the legal origins of a country—whether common law or civil law—is a key determinant of the law's flexibility in adapting to changing economic conditions.[6] The emphasis on 'corporation' as a superior form has been criticized by various scholars. In particular, Guinnane et. al. (2007) argued that given the corporation had certain disadvantages (such as limitations on owners' control) that limited its appeal to small- and medium-sized enterprises (SMEs), private limited liability company (PLLC)—an innovation that emerged within civil (code) law—combining the advantages of legal personhood and joint stock with a flexible internal organizational structure, proved useful. In other words, SMEs may be better off if they can adopt a more flexible form of organization that allows

[4] Boradly speaking, the missing middle refers to the relatively 'low' share of SMEs in total employment. In developed economies, formal SMEs account for around 57% of total employment, but only account for 18% of employment in low income countries (Khwaja 2010). But in particular, the missing middle is usually associated with a bimodal distribution of firm size, i.e., there are large number of small firms, some large firms, but very few medium-sized firms. But some scholars, argue that the bimodal distribution is not a prerequisite for 'missing middle' problem. For a debate about emprical validity of the missing middle argument, see Hsieh and Olken (2014) and Tybout (2014).

[5] Based on the data provided by Palas (1996) on the distribution of manufacturing employment by establishment size in 1990, Taymaz (1997: 33-34) The employment share of LSEs in Turkey is lower than the EU average but it is comparable to Japan which has the lowest average plant size (APS) among the developed countries because of its unique inter-firm networking. The share of SMEs seems to be lower in Turkey than the EU, but this is a result of the outstanding share of micro establishments.

[6] La Porta et. al. (1998, 1999), Levine (1999).

them to trade off the advantages and disadvantages of both corporations and partnerships as suits their particular type of business.

This line of research indicates that the legal innovation (and its determinants) have implications for understanding the SME success (or its relative lackoff). Our earlier research focusing on the legal transplantation in the late Ottoman period and the early Turkish Republic, has shown that PLLCs were missing among multi-owner enterprises until 1950s (Ağır and Artunç 2021).[7] In that paper, our analysis of the novel data on firm formation, along with historical sources such as legal texts and parliamentary minutes show that the way Western law was adopted in the Ottoman Empire and later in the Turkish Republic set the stage for a social and economic ordering that was remarkably path dependent. The choices made during the transplantation process (the selectivity and adoption of the origin law) reflected a mix of factors including *de facto* and *de jure* familiarity with the origin law as well as a political economy setting that shaped capacity of the actors' demand for legal change. Up until 1950s, the reserved attitude of the state justified by reference to risks peculiar to the recipient country along with the factors that undermined a business community that could more effectively voice their demands led to a relatively stagnant legal system.

Following upon these findings, in this paper, we focus on the post-1950 trajectory of commercial law to explore continuities and discontinuities. Using a novel data set, we show that inspite of significant changes in commercial law and the 'liberal' spirit guiding these changes in 1950s, the set of legal forms of business available for small- and medium-sized businesses remained very limited/dysfunctional until the 1980s. We suggest an explanation for the failure of Turkish lawmakers to enable PLLCs as a form suitable for middle-sized enterprises: The path-dependent adoption process seem to have led to a local adaptation (divergence from the origin law) that probably (and unforeseeably) undermined small- and medium-sized enterprises access to credit. In other words, the benefits that would be acquired by forming PLLC were not large enough to cover the costs (tax and registration formalities). In addition, other factors embedded in the underdeveloped context of legal change—i.e. the dual economy challenges and the factors underlying capital rationing—might have contributed to the 'missing middle' in the Turkish economy. As such, there would be relatively fewer SMEs willing and able to economically and/or socially upgrade; implying also a relatively low demand for PLLC. The changes after the 1980s (i.e., the gradual and

[7] The Ottoman Empire covered a vast and diverse territory in the Balkans and the Middle East. This paper focuses on the territories under the central government's direct authority in the nineteenth century; Anatolia (modern Turkey) and the Southeastern Balkans (Thrace, Bulgaria, and Macedonia). We exclude semi-autonomous Ottoman territories, such as Egypt, due to their appreciably different legal institutions.

significant rise in the share of limited liability firms), furthermore, were not caused by intentional legal reforms (the commercial code remained stagnant until 2012), but was driven by a combination of contingent factors such as changes in the income tax and economic policy.

This is one of the first examinations of the evolution of commercial law in the Turkish Republic. While there are several studies on the impact of legal institutions concerning economic activity in the Middle East, most of them focus on earlier rules derived from Islamic law. Scholars have recently explored how Islamic law diverged from Western Europe and what these differences implied for long term economic development.[8] On the other hand, research on the modernization of commercial law mostly focused on the Ottoman period.[9] In this paper, we explore legal modernization in the region from a long-term perspective by demonstrating the continuities and ruptures in the transplantation of commercial law (in particular the legal provisions concerning business organisations) in the twentieth centuries.

We examine three questions. How did the transplanted rules diverge from the origin law, especially in the ease of access to novel forms of business organization such as PLLC? Why did these rules diverge in such areas? What were the implications of this divergence, if any, for 'business ecosystem' in Turkey? We address these questions by analyzing a wide ragne of archival and statistical sources including legislative discussions located in the minutes of the parliament between 1908 and 1990, legal manuscripts between 1923 and 1990, research on major newspapers and the novel firm-level data we built on:

i) a dataset of Turkish enterprises that we developed from firm registers in Istanbul published by the Istanbul Chamber of Commerce between 1926 in 1950 (stock).

ii) a dataset of Turkish entreprises that we developed from firm registry records in Turkey by random sampling between 1957-1993 (flow).

The research on the state-business relations in the Republican Era has shed light on various aspects of institutional context of doing business in Turkey (Buğra 1994, Özel 2014). We benefited from the findings of this literature and our findings are in line with what may be called the 'state-dependent'

[8] Timur Kuran, "Why the Middle East is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation," *Journal of Economic Perspectives* 18, no. 3 (2004): 71-90; Timur Kuran, *The Long Divergence: How Islamic Law Held Back the Middle East* (Princeton, 2011); Jared Rubin, "Institutions, the Rise of Commerce and the Persistence of Laws: Interest Restrictions in Islam and Christianity," *Economic Journal* 121, no. 557 (2011): 1310–39.

[9] Ron Harris and Michael Crystal's study on the transplantation of company law in twentieth-century British Palestine is an important exception; see Ron Harris and Michael Crystal, "Some Reflections on the Transplantation of British Company Law in Post-Ottoman Palestine," *Theoretical Inquiries in Law* 10, no. 2 (2009): 561–87.

nature of the Turkish business elites. This line of research, however, has mostly focused on the realm of the 'elites' (i.e., big businesses). In our research, we also build a representative sample of all firms in Turkey and our focus is mostly on the dynamics of legal change and in particular to what extent law responds to the needs of what constitutes small- and medium-sized enterprises. Our analysis demonstrates an exceptionally 'stagnant' commercial law, in particular with respect to the provisions concerning these enterprises.[10]

Rather, we provide a suggestively causal narrative based upon an interpretative analysis of our primary sources. The Ottoman Commercial Law (1850), transplanted from the French law due to merchants' initial, *de facto* familiarity with it, exhibited highly restrictive clauses about 'corporations' and limited liability firms; and did not change until 1926. In another study, we explained this initial stagnation with the 'exit' option available for the non-muslim components of the commercial community. For the latter period, we observe that the Turkish commercial law (transplanted again from the French law of 1925-in an abrupt, top-down manner in the early Republic) also had striking shortcomings, especially with respect to the legal options available for small- and medium- sized enterprises. These initial shortcomings, we tend to argue, reflected both the hasty transplantation process embedded in the ideological setting of the early Republic and the political economic environment within which the small- and medium- enterprises lacked voice. As an example of how the Turkish state's 'nationalist' priorities were at odds with existence of a relatively cohesive and experienced business community—which might have played an important role in demanding legal change—we examined an extraordinary fiscal tool (i.e, Wealth Tax of 1942) that served dispossession and termination of the non-Muslim enterprises. We discuss imlications of the arbitrary policies such as Wealth Tax (as there are not one but many examples of Turkification of the economy at the expense of non-Muslim communities) for the broader 'business environment' and implications for law in another paper (Ağır and Artunç 2019). In the post-1950 period, economic policies take a 'liberal' turn while one-party system is replaced by a multi-party regime paving the ground for pro-business policies.

The 1957 Commercial Law brought about significant changes in the provisions regarding limited liability form (adopted from the Swiss Code). The selection of the origin code, once more,

[10] At this early stage of our research, we do not offer an econometric analysis of the implications of the legal setting for indicators concerning firms' performance. But, this is one of the future lines of inquiry we will follow based upon our current analysis

reflects familiarity which resulted from somewhat contingent factors and the shortcomings of the previous law. The 1957 Law, unlike the previous one, explained the selective adotion of the Swiss code (some provisions left out) with the willingness to promote PLLCs. Nevertheless, the share of limited liability firms among newly established multiowner firms continued to be strikingly low until 1980s. We argue that this low adoption of limited liability form reflected certain 'path dependent' aspects of the transplantation process possibly along with factors that continued to undermine collective demand for legal change. We also hypothesize (but not test) several specific explanations regarding what might have contributed to the low adoption of the PLLC form. Lastly, the paper focuses on the potential factors underlying the gradual but significant rise in limited liability form in the 1980s and shows the contingent nature of factors that led to a spike in limited liability firms.

2. Historical Background: A Latecomer's Tale

The study of the late Ottoman era provides key insights into the various mechanisms through which the region was integrated into the world economy and sheds light on the legacy of that integration for Turkey's economic development path. It was during the long nineteenth century that the region first experienced the strong pull of the European markets and eventually turned into a periphery through the formation of commercial, financial and political linkages with the core regions. This peripheralization happened in ways similar to those experienced by most countries in Latin America and Asia as they were shaped by the changes in the modes of production and capital accumulation in the capitalist world economy. The pace and nature of the Ottoman/Turkish dependent development, however, were shaped by unique conditions of the region and the heritage of Ottoman political economy. First, unlike most peripheral regions, Ottoman Empire was not subject to direct colonial rule. The constraints on political sovereignty were imposed covertly through diplomatic pressures against the background of military weaknesses and fiscal needs of the Empire. Yet, there was ample room for negotiation at least up until the second half of the nineteenth century. As such, the inner dynamics of the Ottoman society are relevant for understanding how and to what extent the Ottoman polity was accommodating the demands of the core regions. Second, Ottoman political elite was willing to embrace 'modern' institutions and introduced legal and political reforms in an attempt to catch up with the Western powers, albeit in a selective way, throughout the nineteenth century. These reforms against background of the political power assymetries embedded in a contect of dependent development led to legal and institutional outcomes that diverged significantly from those of the core regions and had further (and sometimes unintended) consequences for economic

development. Third, given its multiethnic demographic structure, economic integration had uneven implications for the Muslim and non-Muslim communities' prospects, creating divergences exacerbated by rise of nationalism and nation building during the later period. This political economic legacy would also shape the ethno-nationalistic tone of developmental agenda in the latter period.

i) 1923-1950: The Era of Legal "Revolution"

After the Turkish Republic was established, radical reforms were introduced in all areas of law. The minister of Justice, Mahmut Esat (Bozkurt), was a Turkish ethno-nationalist trained in Switzerland and wrote his doctoral dissertation on the capitulations. Bozkurt shared his Ottoman predecessors' belief that comprehensive legal modernization was needed to effectively counter the Western powers' insistence on retaining the capitulations. Like other contemporary leading political figures, he viewed legal transplantation not as patching the gaps in the law but rather as a vehicle of radical modernization.[11] The old legal system's Islamic elements were perceived as obstacles. Mahmut Esat viewed that this "legal revolution" was indispensable to do away with "backward" legal system that consisted of three overlapping religious laws with their separate courts, and so could not be consistent with a "modern understanding of the state and its unity." This was the very same "backwardness," he argued, that gave the Europeans an excuse to refuse the capitulations' repeal.

The Republican cadres thus took the Ottoman reformers' efforts one step further: complete secularization of the law. Islamic courts were abolished in April 1924.[12] Shortly after, the commissions under Mahmud Esat's supervision prepared proposals for the Turkish Civil Code, Commercial Code, and the Penal Code. The Civil Code was entirely based on the Swiss Civil Code and the Code of Obligations, the Commercial Code on German and French codes, and the Penal Code on Italian law. Upon seeing the proposals, Mustafa Kemal, despite his ambition to establish a modern nation-state, questioned if there were enough capable people to put these "translated" laws into practice. The minister's answer reflected his strong belief in the urgency of legal change: "If you were told that better weapons were invented in Europe, would you wait until you had people who

---

[11] Bozkurt wanted not just reform but "a revolution of law," consistent with what Mustafa Kemal expressed in 1925: "It is our purpose to create completely new laws and thus to tear up the very foundations of the old legal system." Gülnihal Bozkurt, "The Reception of Western European Law in Turkey (From the Tanzimat to the Turkish Republic, 1839-1939)," *Der Islam* 75, no. 2 (1998): 283-295 and Bernard Lewis, *The Emergence of Modern Turkey*, 3rd ed. (Oxford, 2002), 274.

[12] The law ("*Mehakim-i Şer'iyenin Ilgasına ve Mehakim Teşkilatına Ait Kanun*"), which was enacted on April 8th, 1924; became effective in May 1924. See TBMM *Zabıtı* (1924), 431.

knew how to use them or would you get these weapons now and then train people in using them?"[13] This radical outlook diverged significantly from the Ottoman transplantation attempt. The Ottoman Commercial Code was more about generalizing a particularized institution. The Turkish Code was introduced top-down with an overt objective of removing the last vestiges of Ottoman legal multiplicity.

The reformers were explicitly keen on adapting the "most advanced" laws as they viewed legal reform critical for catching up to Europe. According to Mahmut Esat, the new Turkish commercial code depended primarily on the German code because it "was the most up-to-date and the most comprehensive commercial law in Europe." The need to adopt a commercial law was urgent because "the current law failed to meet the needs of commercial courts and dealing with all matters continued to rely on custom."[14]

Despite their belief in the necessity of radical transplantation and confidence in the origin code's superiority, the reformers introduced significant alterations. General incorporation was not imported. The law codified the general rules necessary for incorporation, which likely made authorization more predictable.[15] This intermediate step notwithstanding, incorporation continued to require state authorization in Turkey when these restrictions had long faded in the origin countries as well as other transplants, including previous Ottoman territories such as Greece.[16] Our examination of parliamentary discussions, using the minutes of the parliament between 1923 and 1926, reveals that legislators did not explicitly clarify the reasons underlying the omission of general incorporation. Some deputies suggested even harsher restrictions such as approval from the specific ministries that were related to the company's business activity. Mahmut Esat opposed this suggestion, stating that the requirement of legislative authorization was indeed an "exception." He explained that in the original draft prepared by the commission, there was no requirement of authorization. It was nevertheless introduced later on grounds that Turkey had "different conditions" (*memleketin vaziyet-i*

---

[13] Şevket Memedali Bilgişin, "İnkilâpçi (Mahmut Esat Bozkurt) ve Türk Hukukunda İnkilâp," *Ankara Üniversitesi Hukuk Fakültesi Dergisi* 1, no. 3 (1944): 317.

[14] TBMM Zabıtı, C: 25, I: 109, 590-591 (1926), *Ticaret Kanunu ve Ticaret Kanununun Tatbikine Dair Kanun Hakkında* and *Ticaret-i Berriye Hakkında Kanun Layihası* 1/835.

[15] While Britain switched from an authorization system to general incorporation in a single step, other countries went through similar intermediate stages before enacting general incorporation. For example, Prussia legislated standardized rules necessary for securing state authorization to incorporate, first for railroads in 1838, then for all sectors in 1843, before finally passing general incorporation in 1870 (Guinnane, "German Company Law," 180–85).

[16] Like the Ottomans, the new Greek state's commercial law (1835) was based on the first three books of the Napoleonic Code. But Greek civil law depended on Byzantine Law, whose anachronistic elements caused internal inconsistencies and uncertainty. See Pepelasis, "Legal System," 186–87, akin to the issues we discuss in the Ottoman context. Similarly, Greek commercial law hardly changed between 1835 and 1910. Nevertheless, by 1926, incorporation in Greece required approval only by the Minister of National Economy, not a royal/executive decree. Pepelasis, "Legal System," 195–96.

hususiyesi) and that corporations were "more directly linked to public law" and "more prone to harming public good." Mahmut Esat stressed that "this requirement would be removed in the near future." Therefore, he suggested that more "exceptions" (such as pre-approval of charters by each ministry) should not be required. Regardless, the requirement of legislative authorization remained in place until the late 1950s.[17]

Mahmut Esat's explanations were vague. He did not elaborate on what made corporations more likely to harm the public good and which "peculiar conditions" in Turkey exacerbated this risk. When general incorporation laws spread in the nineteenth century, corporations' impact on the public was also a crucial theme among European legal scholars and politicians.[18] These concerns about the possible abuse of limited liability emerged as a response to financial bubbles and the spread of corporate fraud. Even then, while some states introduced corporate regulations, there was no reversal to the authorization system.[19]

In the Turkish context, the political elite's unwillingness to adopt general incorporation reflected different concerns born out of the political economy context going back to the late Ottoman period. The legacy of European extraterritoriality made authorities suspicious of any corporate activity. In 1918, Mehmet Asım, editor-in-chief of the newspaper *Vakit* and later a representative in the Turkish Parliament, extolled corporations' exceptional benefits to economic prosperity, all the while warning that—without strict barriers to incorporation—corporations could create wanton corruption, especially in a country such as Turkey, where people lacked an "economic training" and foreigners could "mingle among these crooked men," without strict barriers to incorporation.[20]

Some of this suspicion about foreign investment was based on what policymakers perceived as "illicit activities" that were exacerbated by consular interference in the past. The concessions granted to foreign companies, deemed detrimental to "national interests," continued to raise concern.[21] The government took a hard line on economic independence and rejected capital from

---

[17] Turkish firms had to acquire the Council of Ministers' approval and there was no indication about how long this could take. In contrast, the process was clearer for foreigners. Bie Ravndal, the American Consul in Istanbul, described registration of a foreign corporation only taking about six weeks. Ravndal, G. B. Ravndal, *Turkey: A Commercial and Industrial Handbook* (Washington, 1926) 203–04.

[18] Guinnane et. al., "Corporation," 13, 21.

[19] Some deputies in the Turkish parliament viewed the lack of such regulations as the reason for abuses of investors and shareholders in the early Turkish corporations; TBMM Zabıtı I: 79, C: 15, 512 (1925).

[20] The original text is transcribed in Celali Yılmaz, *Osmanlı Anonim Şirketleri* (Istanbul: 2011) 437–41.

[21] TBMM Zabıtı, I: 26, C: 1 (1914), 196-97; TBMM Zabıtı I: 165, C: 1 (1922), 108 for debates concerning potential risks of foreign investment see TBMM I: 37, C: 1, 680–84.

major European powers.[22] Yet, there were probably other motives, embedded within the nationalist program to replace the non-Muslim economic elite with Muslims. Territorial losses in the Balkans and the subsequent Muslim migration from the Balkans to Anatolia during the late nineteenth and early twentieth century, the mass expulsions of Armenians during World War I, and the Greek-Turkish population exchange after the Greco-Turkish War of 1919-22 led to a permanent change in Anatolia's ethnoreligious make-up. By 1923, non-Muslims' share in Anatolia had fallen to only about 2.5 percent of Anatolia's population.[23] However, Istanbul, still the hub of commercial, industrial, and financial activity, preserved most of its non-Muslim population, which continued to have a large presence in trade and finance.[24]

The non-Muslim dominance in the economic sphere was at odds with the government's nationalist outlook. The early cadres of the Republic made resentful references to non-Muslims' "economic ascendancy" in parliamentary debates.[25] But non-Muslims lacked meaningful political or legal voice despite accounting for significant business activity.[26] Within this context, restricting access to the corporate form—the most effective means of raising capital for large-scale ventures—was an important tool for the state to undermine non-Muslims and channel funds to Turkish businesses. During the early years of the Republic, many emerging entrepreneurs built their businesses on the displacement and even dispossession of non-Muslim businessmen. In return, to be successful, these businessmen needed to demonstrate their desire and ability to serve the state.[27] The new Turkish

---

[22] Fleet, "Geç Osmanlı," 35.

[23] Ayhan Aktar, "Homogenizing the Nation, Turkifying the Economy: Turkish Experience of Populations Exchange Reconsidered," in *Crossing the Aegean: An Appraisal of the 1923 Compulsory Exchange between Greece and Turkey*, ed. R. Hirschon (Oxford, 2003), 79 – 95, 87. See Üngör and Polatel, *Confiscation*, for the impact of the Young Turks' policies on Ottoman Armenians.

[24] According to the 1935 Population Census, Christians and Jews made up 24.6 percent of the population in Istanbul. 49.6 percent of Istanbul's Christian population and 48.5 percent of Jews were involved in industry or trade whereas only 25.2 percent of Muslims were involved in these sectors. Muslims predominantly (28.2 percent) held occupations in agriculture and administration.

[25] For instance, a Muslim deputy of Konya, Hacı Bekir, argued against requiring businesses to keep account books for tax purposes because it would hurt establishments owned by Muslims, who had significantly lower literacy rates than non-Muslims. See TBMM Zabıtı, I: 112, C: 2, 318. Other deputies also brought up the issue of significant human capital gaps between the two groups (TBMM Zabıt Ceridesi, I: 127, C: 1, (1921), 106. The Minister of Trade, Besim (Atalay), argued that Muslim merchants continued to depend on non-Muslim intermediaries despite controlling most of the domestic trade in 1925. TBMM Zabıtı, I: 79, C: 15 (1925), 512–14.

[26] Between 1924 and 1935, there were no non-Muslim deputies in the parliament (and only a handful after 1935). In the Republican period, non-Muslims were not considered equal citizens and had no representation in politics or semi-public associations such as chambers of commerce. Through a decree in 1924, non-Muslims in the bar were dismissed and many were prevented from practicing law.

[27] Ayşe Buğra, *State and Business in Modern Turkey: A Comparative Study* (New York, 1994), 50; Başaran, "Muslim-Turkish Merchant," 100.

enterprises, which benefited from these transfers and the imposition of barriers to entry on others, did not oppose the restrictions of the 1926 code.

The 1926 code also introduced the private limited liability company (*limited şirket*), or the PLLC. This enterprise form, with lower capitalization requirements and fewer constraints on governance, was supposed to make limited liability more accessible for all members in small and medium-sized enterprises.[28] But two issues restricted the use of PLLCs in the Turkish Republic. First, many provisions, especially on firm governance and share transfers, were completely left out.[29] The reasons are not clear, but in 1933, Mehmed Ali, the undersecretary of Trade, wrote a 200-page book on the legal features of limited companies to clarify ambiguous elements in the commercial code and help demonstrate this form's benefits to entrepreneurs.[30] Second, establishing PLLCs required authorization from the Ministry of Trade. While this was easier than the Council of Ministers' approval needed for incorporation, it still made Turkish law significantly more cumbersome than French law, where a simple registration was sufficient for a PLLC, or any company, to exist. In his book for promoting the PLLC, Mehmet Ali stressed the easy registration process as one of the advantages of PLLCs in France and Germany. Yet, he also justified the requirement on two grounds. First, incorporation in Turkey also required government authorization and so the reasons that made authorization for corporations necessary—without explaining what they were—also justified a similar but less demanding process for PLLCs. Free organization of PLLCs was viewed as inconsistent with the spirit of the law when incorporation still required authorization. Second, the legal provisions about the PLLC in the Turkish commercial code were incomplete and most rules concerning the company had to be explicitly written in the articles of association. This, according to Mehmet Ali, implied too much freedom that might lead to the creation of companies that would not fit the "limited" form and could harm outside investors.[31]

---

[28] Cevat Hakkı Özbey, "Küçük Sermayeli Teşebbüsleri Teşvik, Mahdut Mesuliyetli Limited Şirketleri Tezyit için Kanuni Hükümlerin Tadili Gerektir," *Hukuk Gazetesi* 42–43 (1940), 10–11.

[29] The 1926 code contained 14 articles on PLLCs; the French law of 1925 on PLLCs had 42. Several transplanted articles were also condensed. For example, Article 510 of the Turkish code, which allowed a PLLC to be administered by shareholders as well as salaried or unsalaried managers, was a translation of the first sentence of Article 24 of the French Law of 1925. By leaving out the rest of that article, the Turkish code omitted provisions on how these managers could be appointed or removed, how long they could serve, and the scope of their powers (France, Loi du 7 Mars 1925 tendant à instituer des sociétés à responsabilité limitée). How founders could actually contract on these issues was not clear until Mehmet Ali's book.

[30] Mehmet Ali states that the law on PLLCs was taken from Germany (the rest from France), but somehow the rules on contractual requirements for PLLCs were "forgotten" ("*her nasılsa unutulmuş*"). He also claims that the lack of provisions on PLLCs was due to an "absence of mind" ("*zuhul eseridir*"). See Mehmet Ali, *Limitet Şirketler* (Istanbul, 1933), 68, 79.

[31] Mehmet Ali, *Limitet Şirketler*, 64.

The problems in the transplantation process and the reluctance to adopt easier registration reveal policymakers' concerns about the PLLC. It took Turkish legal scholars 14 years after the introduction of the PLLC to raise serious critiques of the authorization requirement. In 1940, the chief editor of *Hukuk Gazetesi* (The Law Journal), Cevat Hakkı Özbey, published an article that argued for the abolition of authorization for PLLCs.[32] Yet, he also stressed his disagreement with scholars who suggested the removal of statutory audit for PLLCs along with the authorization requirement.[33] He considered the official audit requirement as a legal provision in line with the two main principles of the Turkish state, statism (*devletçilik*) and populism (*halkçılık*).

Even in the 1940s, the number of private limited liability companies established in Istanbul seems to have been relatively small compared to partnership forms. After its introduction in France in 1925, the PLLC became popular rapidly; by 1929, it accounted for about 60 percent of new multi-owner firms established in Paris.[34] In contrast, despite introducing the PLLC only a year later in 1926, our data show that PLLCs made up only seven percent of new multi-owner firms established in Istanbul by 1929 (see Figure 1). The form became only slightly more popular over time. In Istanbul, out of all multi-owner enterprises established between 1926 and 1950, just 13.6 percent were organized as PLLCs.[35]

In the 1930s, legal scholars used the ideological underpinnings of the Turkish state as a justification for strict control over incorporation and the establishment of PLLCs. Ernst Hirsch, who was a legal scholar specializing in commercial law and responsible for training an entire generation of law students in the Istanbul Faculty of Law in the 1930s-40s, defended the authorization requirement by arguing that the unrestricted formation of any legal entity would have been inconsistent with country's statist agenda.[36] His student and collaborator Halil Arslanlı, one of the most influential legal scholars in Turkey, supported regulations on all legal persons with the same statist justification.[37] In 1939, a proposal to extend limited liability to single-person PLLCs was also held back because of "national economic considerations."[38]

---

[32] Özbey, "Küçük sermayeli teşebbüsleri teşvik."
[33] The Law of 1926 required all PLLCs with more than 20 partners to appoint at least one auditor to audit the company's financial statements, much like the requirement on corporations (Clause 516).
[34] Guinnane et al., "Corporation," 710–13.
[35] Even as late as the 1970s, PLLCs and corporations accounted for less than 20 percent of firms established in Turkey (The Union of Chambers and Commodity Exchanges of Turkey, correspondence with the Head of Statistics.)
[36] Ernst Hirsch, *Ticaret Hukuku Dersleri* (Istanbul, 1938).
[37] Halil Arslanlı, "Türk hukukunda devletçiliğin anonim şirketlerin ehliyeti üzerine tesiri," PhD Diss., (Istanbul Universitesi, 1938).
[38] Lorenz Fastrich, "Tek Ortaklı Anonim Şirketler ve Alman Hisse Hukukunda Yeni Gelişmeler," Türkiye ve Avrupa Birliği'nde Sermaya Şirketleri Reformu (Istanbul, 2007), 22.

This statist discourse reflected the new state-led industrialization program that came about as a consequence of global trends and disappointment with the private sector's performance in the 1920s. Early on, the regime viewed the creation of a Muslim-Turkish private sector as the key ingredient of national economic development and industrialization.[39] The government supported "private" enterprises directly by acting as their major shareholder and creditor. Deputies frequently appeared as corporation founders and served on the boards.[40] Existing or newly formed state monopolies were transferred to people or companies close to the government.[41] While these policies contributed to the creation of a Turkish-Muslim private sector,[42] they did not produce the industrialization objective. Indeed, total factor productivity growth in the 1920s remained quite low.[43] Instead, this public-private partnership raised concerns about the extensive use of political clout in favoring certain business groups for personal interests.[44] Some deputies were especially worried about the state's conflict of interest due to its dual role as a shareholder and the regulator of corporations with partial state ownership.[45] These debates, however, did not lead to robust statutory laws that oversaw such mixed enterprises. While the authorization system was justified with reference to potential public harm that could ensue from general incorporation laws, it ensured that politically well-connected elites would have advantages over others.

With the onset of the global crisis in the 1930s, the government came to view the trade protection of manufacturing as an opportunity for rapid industrialization and embraced a policy of state-led import-substituting industrialization.[46] It nationalized foreign railways and coal mines as well

---

[39] Şevket Pamuk, *Uneven Centuries: Economic Development of Turkey since 1820* (Princeton, 2018), 171.
[40] Yahya Sezai Tezel, *Cumhuriyet Döneminin İktisadi Tarihi (1923–1950)* (Istanbul,1994), 231–36
[41] Uygur Kocabaşoğlu, *Türkiye İş Bankası Tarihi* (Istanbul, 2001), 1–298.
[42] Many of the prominent Muslim merchant families became prosperous through participating in economic initiatives of the new Republic (Başaran, "Muslim-Turkish Merchant," 91–95).
[43] Sumru Altug, Alpay Filiztekin, and Şevket Pamuk, "Sources of Long-Term Economic Growth for Turkey, 1880–2005," *European Review of Economic History* 12, no. 3 (2008): 409. This low growth performance could be due to the negative effects of the war period (Altug et al.), the fact that the "national" entrepreneurs were behind the learning curve (Ağır and Artunç, "Wealth Tax"), possible resource misallocation the political-private alliance created (for a modern example, see Chang-Tai Hsieh and Peter J. Klenow, "Misallocation and Manufacturing TFP in China and India," *Quarterly Journal of Economics* 124, no. 4 (2009): 1403–48) or restrictions on incorporation and establishing PLLCs, such barriers to entry can significantly depress output per capita by reducing total factor productivity, see Leon Barseghyan, "Entry Costs and Cross-country Differences in Productivity and Output," *Journal of Economic Growth* 13, no. 2 (2008): 145–67.
[44] In several debates at the Parliament, the deputies' involvement in corporate boards and state-sponsored corporations' mismanagement that inflicted harm both on government budget and shareholders; TBMM Zabıtı, I: 74, C: 20 (1930). Also see Doğan Avcıoğlu, *Türkiye'nin Düzeni* (Ankara, 1968), 252–65.
[45] For example, Türkiye Milli İthalat ve İhracat Şirketi, with support from the Kemalist government, was established place Muslim-Turks as intermediaries in foreign commerce. The government also stepped in to save the company when the firm went bankrupt in 1925. The supervision of state corporations became an important topic in the parliament; see TBMM Zabıtı I: 104, C: 25 (1926), 339–42.
[46] Pamuk, *Uneven Centuries*, 176.

as establishing several state-owned enterprises in key sectors as part of the first five-year economic plan of 1934. While most of the state economic enterprises were formed as corporations, they were considered a distinct legal form and regulated under a specific law. The official discourse helped propagate the idea that the private sector had to function in accord with national interests, justified restrictions on private enterprises, and rationalized expropriation. Despite adopting a more guarded stance against the private sector and taking precautions against corruption, the government continued to favor certain private enterprises directly and indirectly.[47] It also continued to ease the transfer of wealth (and businesses) from non-Muslims to Muslims. It was within this context that the government imposed an extraordinary tax called the Wealth Tax (*Varlık Vergisi*) justified by the exigencies of the war economy in 1942.[48]

ii) The Case of 'Wealth Tax': Implications of 'Nationalist Economy'

The goals of development and improving "native" entrepreneurs' competitiveness in industry and trade was not unique to Turkey; it was part of a nation-building wave across Eastern and Southern Europe, where discriminatory policies and ethnic persecutions also flared in the interwar period. In Turkey, previous discriminatory incidents against minorities culminated in the imposition of an extraordinary tax called the Wealth Tax (*Varlık Vergisi*), in 1942, justified by the exigencies of the war economy.[49] The war triggered a severe fiscal crisis due to military mobilization and a surge in prices. Much like the taxes other countries introduced at the time, the government issued the Wealth Tax ostensibly to relieve pressure on government finances, battle wartime profiteering and curb inflation.[50] The law itself had little to say about the rollout. Consistent with its nationalist designs, however, the government gave its officials discretion to charge non-Muslims higher rates. The lack of accurate information about personal wealth and income led to arbitrary assessments, further increasing non-Muslims' tax burden. People who could not pay their assessments in time were sent to Aşkale, a labor

---

[47] Avcıoğlu, *Türkiye'nin Düzeni*, 281; Pamuk, *Uneven Centuries*, 177; Tezel, *Cumhuriyet*, 252. For instance, the state extended credit to firms and empowered certain businesses with the distribution and retail of goods that the state-owned enterprises produced (Tezel, 298–99). The relations between the state and these Turkish businesses were not antagonistic, but rather complementary; see Bilsay Kuruç, *Belgelerle Türk Iktisat Politikası II. Cilt (1933-1935)* (Ankara, 1993), 225; Korkut Boratav, *Türkiye Iktisat Tarihi (1908-1985)* (İstanbul, 1988), 57.

[48] The next part heavily draws upon Ağır and Artunç, "Wealth Tax.".

[49] Some studies prefer to use the term "Wealth Levy," e.g. Keyder (1987), Buğra (1994). Both descriptions are common in the literature. Contemporary press also used the phrase "Capital Levy" (Sulzberger, C. L. "Turkey is Uneasy over Capital Levy." The New York Times, September 9, 1943).

[50] In the early 1940s, many countries, including the U.S. and the U.K., raised income tax rates substantially and introduced new excess profit taxes, which were levied on profits above some prewar standard. Just like the Turkish Wealth Tax, these taxes came out of the fiscal pressure that mobilization imposed and were justified as tools to target wartime extraordinary profits (Pollack, 2010: 64; Scheve and Stasavage, 2016: 119).

camp in Eastern Turkey. Its arbitrary application and punitive implications made the Wealth Tax a powerful extractive tool.

While there has been a number of studies that relied on anecdotal narratives, a quantitative analysis on the Wealth Tax's consequences remained absent due to data limitations. In Ağır and Artunc (2019) we attempted to close this empirical gap by assembling a novel dataset comprising the universe of more than 20,000 enterprises in Istanbul—by far, the largest and most important center of trade, finance, and industry in Turkey—between 1926 and 1950. After the Population Exchange of 1924, Istanbul was the only urban center with a significanly non-Muslim (Greek, Armenian and Jewish) population in Turkey. The regression analysis shows the tax's heterogeneous impact on Muslim and non-Muslim businesses by estimating survival probabilities before and after the policy change for each cohort, controlling for other firm observables (See Figure 2**,** for more details see Ağır and Artunç 2019). We find that the tax led to a substantial spike in non-Muslim firms' liquidation rates relative to Muslim-owned businesses (Ağır and Artunç 2019). It also reduced the formation of new non-Muslim enterprises. Thus, the tax contributed to religious minorities' disappearance in Istanbul's commercial life. In addition, the proceeds from the Wealth Tax were used to finance Muslim entrants, further facilitating the nationalization of Turkey's business life. The paper shows that the law had dismal implications for Turkey's economic growth: it prematurely removed the most productive firms, which were disproportionately owned by non-Muslims and were older, replacing them with less productive Muslim-owned startups that ended up dissolving within years.

The tax, along with other policies aiming at dispossession and expulsion of non-Muslim populations during the late Ottoman Empire and Early Turkish Republic probably had various implications for the political economy. The difference across ethno-religious communities with respect to various aspects of human capital (such as skills and literacy) might have contributed to geographical divergences after these communities left. There is a recent literature on the long-run impact of ethno-religious co-existence and its disappearance in Turkey (Arbatlı and Gökmen 2022, Ersan and Özen 2022). The policies also contributed to wealth transfer to Muslims and contributed to formation of alliances between local Muslim elites and the state (Durmaz 2015, Üngör and Polatel 2011). Some scholars have called this forced process of dispossession contributing to the formation of a national (i.e., Muslim) bourgeoisie as 'primitive accumulation' (Öz 2020).

There are a few other aspects of the Wealth Tax that are relevant for understanding the 'institutional legacy' of the Early Republic's political economy. As Bali (2012: 360-365) pointed out, the hasty and arbitrary implementation of the tax included certain practices that conflicted with the

primary principles of the law of obligations. The tax law permitted not only confiscation of the properties of the taxpayer (in case they did not make the payment in only 3 weeks), but also confiscation of the property of co-residing relatives. Also because the deadline was very short, the liable taxpayers were forced to sell property below market value and the tax took heavy toll in particular entrepreneurs who kept their wealth in illiquid assets.

Lastly, the state-led policies of wealth transfer and arbitrary use of fiscal tools for such purposes might have contributed to the weakness and political timidness of the business elites in Turkey (Buğra 1997: 16). In the late-comer context of the Turkish economy, as was the case in many other late comers, there was already less continuity in terms of socio-political status of businessmen. The so-called 'homines novi', with few roots in industry and trade, were more common. The extractive policies such as the Wealth Tax did probably contribute further to this discontiniuty as well as the politically reserved attitude of not only non-Muslim but also Muslim businesses. In other words, it was within this setting of weak business environment that legal stagnation (and in particular lack of demand for novel business forms) must be placed.

iii) 1950s: Winds of Change?

Our examination of the minutes of the parliament between 1920 and 1950, revealed no objections to the restrictions on corporations and PLLCs until the late 1940s. In a debate on the introduction of corporate taxes,[51] Salamon Adato, a Jewish deputy who had been elected from the opposition party in the first multi-party elections in 1946, stated that the law concerning businesses was outdated ("from 140 years ago"), imposed suffocating bureaucratic procedure on corporations and PLLCs, and it would be very unlikely to expect businesses to flourish under such conditions. The minister of commerce, Cemil Barlas, stated that these regulations were necessary due to the lack of economic development and the inadequacy of auditing institutions (banks had little capacity to audit corporations).[52] He referred to Germany in the 1890s and stated that general incorporation during this early period of its economic development had led to the abuse of small investors. This example, however, misrepresented the historical experience. While new and restrictive rules concerning corporations were introduced following the deflation of the bubble, Germany did not go back to the authorization system. Furthermore, the German PLLC, which was well-suited to small and medium-sized enterprises, became widely popular after its introduction in 1892. Cemil Alevli, an established businessperson and

[51] TBMM Zabıtı, I: 73, C: 18 (1949), 500–16.
[52] TBMM Zabıtı, I: 73, C: 18 (1949), 510.

a deputy from the ruling party, supported Adato and also used an example from German history. He stated that family businesses, such as Bayer, became successful because they could incorporate and avoid untimely dissolution.

This discussion in the parliament marked the onset of demands for legal change that would eventually lead to the general incorporation law in 1957. 1950, the year of the second multi-party elections and establishment of the Democrat Party government, marks the transition from statism to a greater private sector initiative.[53] During this period, the nascent private enterprises became stronger and family business groups, which would later become key actors in Turkey, emerged.[54] It was probably the slow and gradual buildup of Turkish businesses during the late 1940s and 1950s along with a transition to a multi-party regime in which private businesses had a stronger voice that led to the emergence of demands for legal change.

Nevetheless, despite the 'liberal' outlook of this period, the legal changes that ensued were still not conducive to the adoption of hybrid forms such as PLLC (See **Figure 3**). The form became widespread only after 1980s. To understand the reasons, we explore contemporary legal sources along with newspapers on legal forms of business. In addition, we analyze the potential role country-specific factors (i.e., 'political economic' aspects of small- and medium-sized business formation) in understanding the demand and supply of novel business forms such as PLLC.

3) Missing Middle: Path Dependence in Transplantation?

As we summarized above, in the more 'liberal' environment of the 1950s, there was a new emphasis on removing 'barriers to entry' for enterprises and a more favorable attitude towards 'private sector.' A new commercial code (TTK 6762), prepared again primarily by Ernst Hirsch, was enacted in 1957. Given the context, one would think that the new code would bring about significant changes in terms of the regulations concerning business organizations. The statement of reasons for the amendments to the provisions about business forms did underline that the provisions concerning limited liability firm in the preexisting commercial law "were borrowed from the French and the limited number of regulations were inadequate in practice." As we summarized in the previous parts, the Turkish Commercial Code of 1926 had various shortcomings: the transplanted part on limited liability form was very short (the complementary French laws were not transplanted, "by fault" or

[53] Sibel Yamak, "Changing Institutional Environment and Business Elites in Turkey," *Society and Business Review* 1, no. 3 (2006): 206–219.
[54] Buğra, *State*, 56; Gencay Şaylan, *Türkiye'de Kapitalizm, Bürokrasi, ve Siyasal İdeoloji* (Istanbul, 1974).

ignorance). In the new law, the amendments regarding the limited liability company were made based on the Swiss Code of Obligations (Poroy, Tekinalp and Çamoğlu, 870).

The choice of the Swiss code constitutes a good example of path dependence in the transplantation process. When the provisions in the 1926 Commercial Code were deemed insufficient, the Ministry of Commerce had provided 'sample statutes' borrowed from the Swiss Code (Çevik, 1984: 12). This familiarity with the Swiss code (also the origin law for the civil code and the code of obligations), according to the legal experts, made it more appealing as it would be easier for the private actors to use the law.

Why the Swiss Code, though? As mentioned in the previous part, the architect of the legal reforms in the early Republic was Mahmut Esat (Bozkurt), who embraced a 'revolutionary' approach in the totality of the legal transplantation process that unfolded during 1920s. In line with their idealization of a radical break from the Ottoman past and its 'archaic' institutions, the early Republican political elite rejected that the efforts for 'modernizing' the Ottoman and Islamic law may be useful. The origin laws to be transplanted were chosen according to their presumed novelty, modernity and simplicity. For instance, the French Commercial Law (1925) was the most up-to-date commercial law and considered the best; in Civil law the Swiss Code was thought to be more modern; in the Penal law the Italian law was considered as superior. In other words, the law was treated like a technology: the latest being usually associated with the best outcomes. As a result of this perspective, the complementarities among various legal systems were neglected; the French commercial law had complementary provisions on the limited liability firm in other legislative texts, which were not consulted. The process was hasty. The code of obligations and the civil code were taken from the Swiss law, with which Mahmut Esat was more familiar with as he, along with some of his Turkish colleagues, lived and studied law in Switzerland (Fribourg). As such, when the French commercial code failed to meet the needs of the businesses, the legal experts and the Ministry of Trade turned towards the Swiss code as the Code of Obligations and the Civil Code were also transplanted from the Swiss codes and they already included provisions that related to commercial matters.

As was the case with the transplantation of the Commercial Code in 1926, the provisions of the Swiss codes for businesses were transplanted with certain local adaptations. In the Swiss code, the partner in the limited liability firm was responsible not only for the capital committed by himself in the bylaws, but also was held responsible for capital stipulated by other partners. This strict regulation did probably raise the third parties' confidence in the firm (and increase its ability to

borrow) and also prevented the likelihood of misconduct or fraud on behalf of partners. Yet, the legal experts asserted that this provision might prevent development of the limited liability firm and decided not to adopt it. This adaptation of the origin law—not to adopt the relatively 'conservative' part of the law—so as to support development of the limited liability form is in contrast with the attitude underlying 1926 transplantation where concerns about potential abuses led to the omission of 'general incorporation' and the restrictions for limited liability firms. Interestingly, however, the lax manner in which the limited liability form was adapted in 1957 did not led to a significant change in terms of adoption of this form vis-à-vis other legal types (see Figure 3).

It is difficult to determine the exact reason why the limited liability form did not become a preferred option among small and medium enterprises up until 1980s. The share of the limited liability firms were much higher in large and well-connected cities such as Ankara, Izmir and Istanbul. In terms of share of corporations, Istanbul stood; but there were not huge differences among other cities. Certainly, the sectors and potential sizes of the businesses did matter in the discrepancies among cities. The data we have provide us with information on initial capital of partnerships, limited liability firms and corporations and a preliminary analysis demonstrate clear differences with respect to the capital size. For each sub-period, the ratio of the new firms' average capital size according to their legal type (i.e., corporation: limited liability: partnership) is around 20:2:1 (In the largest cities, the PLLCs are relatively larger; but still much more similar to the 'collective' and 'commandite' partnerships rather than corporation).

The size differences are in line what we would expect to see given the higher requirements of establishing a corporation vis-à-vis a limited liability firm. To establish a corporation, you needed a minimum capital of 500.000 TL, whereas to establish a limited liability you need minimum capital of 10,000 TL. According to the 1957 Commercial Law, corporations need to be established with at least 5 partners (in fact, to overcome this minimum partner requirement, many people incorporated with their close relatives-why we see relatively high number among shareholders and board members-and sometimes attempted to include under-aged childten, although it was not legal); whereas the PLLC required only 2 partners. As is the case in most places, the bureaucratic process involved in establishing a corporation and the audit requirements were much more complex and burdensome compared to the limited liability firms. The minimum capital requirement along with the bureaucratic steps involved in establishing a corporation and the high corporate tax, are quoted as

highly cumbersome in comtemporary sources (Ansay 1970).[55] Therefore, we would expect to see and we do see a significant gap between corporations and PLLCs in terms of the size of authorized capital (We have recently located the yearly statistics of the all multi-owner firms on city basis and currently building a new data set based on these reports. Again, a preliminary analysis indicates a similar proportion between legal forms in terms of the size of their authorized capital. We have yet to build a regression analysis to more systematically analyse these differences among firms' types).

What is striking in terms of distribution of firms with respect to their legal types is this: Up until 1980s, the share of limited liability firms (within multi-owners firms) continued to be very low. In fact, the number of newly established partnerships (*kolektif* and *komandit*) continue to be twice the number of PLLCs up until early 1980s (**Figure 3**). This is despite the fact that most partnerships were established with capital that is above the legally-required minimum for the PLLCs. Then, the question is why the entrepreneurs did not prefer a legal form that provided limited liability (for all members), but continued to establish other types of partnerships. It is also interesting to note that the number of corporations were slightly higher than the number of PLLCs. In other words, PLLCs did not appeal much neither to potential 'corporation' or 'partnership' partners. This is interesting especially if one considers the fact that in civil law countries such as France and Spain, PLLCs became quite popular right after they were legally introduced.

There may be various potential explanations. One is that the lax adoption of the Swiss legal code in fact might have worked against its intention and undermined the credibility of PLLCs, making banks less likely to extend loans to these firms. Second is that the 'middle-size' firms were relative scarce—the size distribution of the firms were skewed towards tails--making larger corporations and small partnerships to be more in demand than the PLLCs. Nevertheless, this will either require an assumption that the size-related and bureaucratic differences among partnerships and PLLCs were significant enough to weigh agaist potential benefits of the PLLCs. Or, there may be some 'political economic' aspects of the Turkish economy that disfavored the small and middle-sized enterprises or formalization/growth of small size enterprises. The research on Turkish political economy during 1970s and 1980s offer certain observations that indicate such an explanation may have some bearing.

[55] There were also remarks made by both legal experts and politicians about inflated number of corporations in Turkey, which are difficult to contextualize.

Political Economy and Institutions

Political economy can have important implications as to what extent and how social capital can play a role in enabling businesses. Social capital be embodied in formal institutions, such as employers' associations, industry federations, chambers of commerce and trade unions contributing to an environment of cooperation and/or competition among businesses. Strong employers' associations and industry federations can play a significant role in SMEs' success (Soskice 1990). They may care for the common interest of SMEs, and, for example, develop common standards and organise joint marketing activities that open up new export channels. Members of employers' associations can also have easier access to advice. Owners of new SMEs may require extra training in the fields of bookkeeping, tax obligations or labour and safety laws. Informal rules such as not hiring qualified employees from competitors and sharing knowledge can play a role. Last but not least, employers' associations and industry federations are important voices for SMEs in negotiations with the government or other organisations like trade unions.

Formal institutions that embody social capital in developing countries are often underdeveloped. Employers' associations are usually weak, and do not have enough members and/or financial means. Competition among firms is more pronounced than cooperation. In such an environment, employers' associations cannot fulfil their main functions. This seems to hold also for the Turkish case despite formal top-down attempts to support SMEs. Especially in the 1970s and 80s, the Turkish governments seem to have adopted SME-promotion policies under the auspices of international organizations. The Small Industry Development Center (KÜSGEM) was established in 1970 by the support of UNIDO. KÜSGEM was a local organization focused on assisting SMEs in Gaziantep province. In 1983, it was replaced by a nation-wide organization, the Small Industry Development Organization (KÜSGET), by an agreement with UNIDO. KÜSGET was transformed into a autonomous organization, the Small and Medium-Sized Industry Development Administration (KOSGEB) in 1990 (Taymaz 1997 citing Müftüoğlu, 1989: 135; SPO, 1985). These organizations provided technical assistance and training services to SMEs and probably contributed to their flourising across Turkey.

Yet, despite all these efforts the SMEs continued to represent a relatively smaller share of employment, GDP and total investment up until 1980s.[56] The reasons were attributed to the 'political economy' environment. For instance, the small enterprises in manufacturing were mostly informal and highly dependent on large businesses and traders in issues such as imports and distribution of key inputs (Aktar, 1990: 121). Regulations such as prohibitions on second-hand machinery imports might have also played a role in limiting small- and medium-size entreprises (Özel 2014: 31). It was possible that the political economy context that we described above might have favored flourishing of a relatively smaller, politically-connected elite at the expense of emergence of a broader business community with relatively strong (or, may be better framed as 'not too weak') medium-sized enterprises. The research on small and medium-sized enterprises in Turkey indicate that the SMEs exhibited "fear of legal authorities" in general, few participated in business associations and complain strongly about deficiencies in state's treatment of businesses (Özar 2003).

One might argue that the potential benefit of PLLCs were not perceived as *de facto* 'benefits' in an economic context within which 'middle is missing'. While this would make sense from a perspective that associates middle missing with the disadvantages of the 'getting larger,' it may also be true that the PLLC as formulated in the Turkish law failed to overcome (the obstacles for small- and medium-sized enterprises' access to finance.

This weakness of the middle-sized enterprises is accompanied by socio-cultural institutions within which personal trust mattered more in the formation of businesses and commercial deals. This would mean actors did not expect much from the formal rights that were to come with acquisition of 'limited liability.'[57] To corroborate whether any or some of these ideas have explanatory power, we will need a rigorous analysis of the data set we have been building as well as access to other data such as legal forms' access to financial sources. We received credit data from one of the oldest and largest banks in Turkey to make some suggestive comparisons (Table 4). The sheer number of kolektif partnerships that received loans was much higher than the number of limited firms (more than the ratio of the number of partnerships to PLLCs). It is possible that partnerships had fewer equity capital and more in need of credit. But it is also likely that the PLLCs had some

[56] Because of the lack of date, most of the scholarly studies on pre-1990 period are based on small-sample survey data. See Bademli 1977, Ayata 1987 and 1991, Aktar 1990, Evcimen, Kaytaz and Cinar 1991, Kaytaz 1994, and Ozcan 1995. For more macro evaluations, see Palas (1996) and a comprehensive evaluation see Taymaz (1997) and Taymaz (2001).

[57] In qualitative studies on firms' access to credit in Turkey, business actors indicate that the banks usually ask for 'personal' assets to be submitted or mortgaged even when the application is for a corporate entity.

disadvantages with respect to credit access. With all complexities including selection bias, it is difficult to explore if financial access was more problematic for PLLCs. This is something that pushes us to look for qualitative sources along with quantitative analysis.

7) Rise of the PLLC in 1980s: Contingency or Political Economy?

Early 1980s exhibit a break in terms of the distribution of new firms according to their legal forms. What contributed to the rise of PLLCs in 1980s? To answer this question, we explored a wide range of resources including legal texts concerning any amendments that were made in the provisions of the commercial law and the changes in corporate law. In addition, we examined all the Parliamentary discussions regarding the commercial law and legal forms of business. These extensive efforts did not deliver any answers. Based on the stylized facts about the political economy setting in 1980s' Turkey, we also searched for answers embedded in the general business environment. After the 1980 coup and the gradual transition back to democracy in 1983, the new government in charge (ANAP) embraced 'liberal' reform agenda, endorsing explicitly the aim to help businesses flourish along with trade liberalization. The distribution of credit by public banks and frequent rescue operations for troubled private firms became a means of disposing patronage in return for electoral support (Öniş and Webb 1992: 12). Furthermore, in 1984, the government raised the 60 percent tax reduction in investment projects (in prioritized regions according to the Development Plan) to 100 percent and the simultaneous changes in law concerning fiscal expenditures provided a major power of discretion as to how (which region and sector) these funds will be distributed.[58] These policies, along with the use of extra budgetary funds and local budgets might have enabled a higher level of business entry, in particular in regions that were relatively underdeveloped. Also import restrictions for SMEs were removed. Policies such as these might have led to an expansion of small- and medium-sized businesses. Nevertheless, it is still a question as to why more and more firms preferred PLLC rather than partnerships compared to the period before. Were there any de facto changes in business entry with regard to PLLC form? We have not found any evidence with respect to such a change.

The business community continued to have a weak and highly fragmented nature in 1980s. TOBB (the National Union of Chambers of Commerce and Industry) was too all encompassing to represent small- and medium-sized firms' interests. As mentioned in the previous part, the SME's perceptions about state involvement continued to be one of fear and suspicion. Whether 'liberal'

[58] TBMM, B: 17, O: 2, 4.1.1984.

policies of the ANAP led to various regional dynamics will require another type of analysis that explore regional differences post-1984 with respect to firm entry with appropriate controls for sector and size. Nonetheless, in the early stage of our research, we turned towards unconventional sources to uncover more direct links to the adoption of PLLC. We browsed the major newspapers of the period in search of a clue and, to our surprise, we came across various news titled "many groceries, retailers… now become companies!". The news referred to an amendment made in the income law (Law 2772) in January 1980 introducing a new principle to assess income tax based on what is known as 'Living Standard Basis' (*Hayat Standardı Esası*). The previous income tax depended on taxpayers' declarations about their wealth as a method to confirm validity of income declarations. As expected, the method failed to prevent tax evasion. With the living standard basis, each occupational group (including those who were self-employed with commercial or agricultural revenues) was attributed a certain living standard and capacity to make expenses. If the declared income was below that level, on the basis of presumed 'living standard', the taxpayer had to pay the minimum 'income tax' assigned to that particular groups (depending also on the city in which the taxpayer lives). While we do not have first-hand data on tax payments, according to many newspaper reports, as a result of this new law, the tax liabilities especially for small businesses such as retail stores and the self-employed increased significantly. As such introduction of the tax created an incentive for micro and small business to turn into PLLCs as the total tax amount would be lower in case of PLLC. Interestingly, there were further increases in tax amounts through 1980s and 1990s which created a gradual rise in new PLLCs,[59] an environment which some would call 'a PLLC dumpster." As such it is possible that the eventual rise of PLLCs did not reflect an improvement in terms of business environment or a legal change intending to make PLLCs more functional. Rather, adoption of this novel form seems to have reflected fiscal changes that are not directly linked to business and actors' attempts to protect themselves from rising fiscal burden.

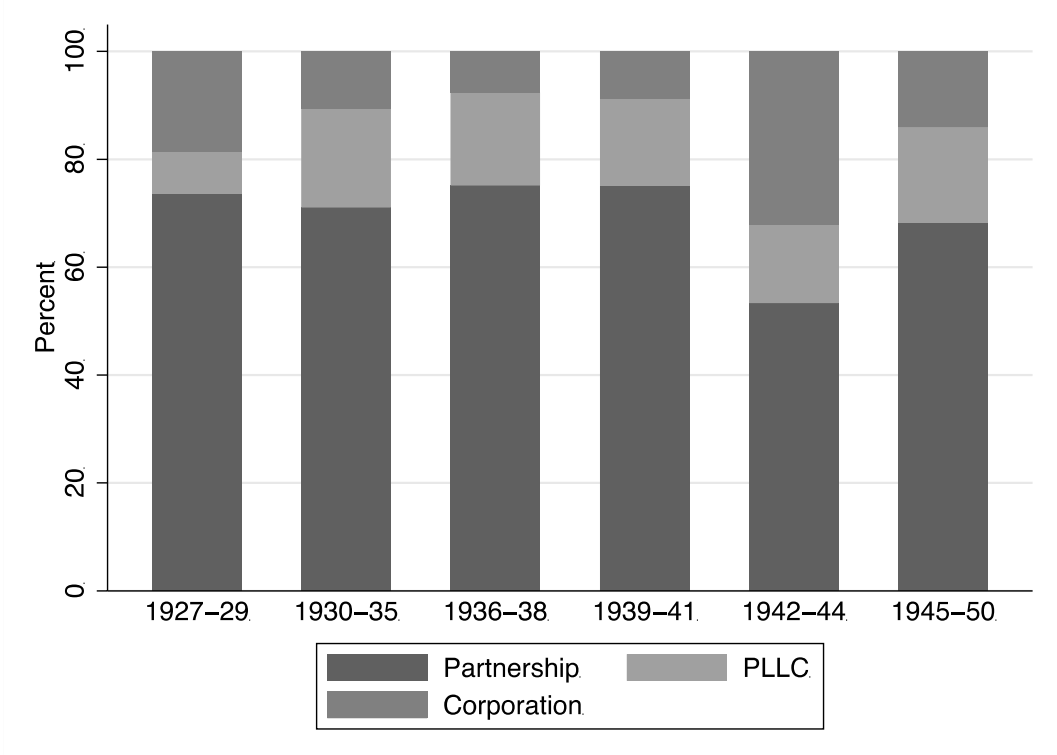
This *longue durée* perspective on legal change and political economy indicates that there is hardly an evolution (or 'convergence towards the best' as expressed by law and economics sholars) in the way the Turkish commercial law evolved. The initial familiary and willingness to transplant 'the best' laws did not prevent stagnation, in particular the restrictions and later shortcomings concerning

[59] Milliyet, 29.12.1994, "Bakkallar da Anonim Şirket Olacak;" Milliyet 1990 "Şirketini Kapat, Peşin Vergiden Kurtul."

available legal forms reflected a political economy environment in which small- and medium-enterprises lacked voice. The transplantation process (the hastiness and choices regarding what is taked and left behind from the origin law) reflected some path-dependent patterns embedded in early Turkish Republic's 'revolutionary' approach to legal change. It was the fiscal-policy related (unintentional) factors, not the market developments or seemingly 'liberal' policies, that eventually led to the widespread adoption of novel forms such as PLLC.

Tables and Figures

Figure 1: Legal form distribution of new multi-owner firms



Notes: Each bar reports the enterprise-form distribution of new companies established in each period and in operation by the end year (so the bar for 1926–29 represents multi-owner firms established between 1927 and 1929, and alive in 1929).

Source: Seven Agir and Cihan Artunç, "Database of firms in Istanbul, 1926–50," Ann Arbor, MI: Inter-university Consortium for Political and Social Research [distributor], 2018-11-05. The dataset is assembled from official directories published by the Istanbul Chamber of Commerce in 1926, 1929, 1935, 1938, 1941, 1944, and 1950. Under the 1926 law, all Turkish firms had to register their enterprises, upon which they received a registry number. The Istanbul Chamber of Commerce kept a directory of these firms and published them periodically. The publications for 1932 and 1947 are either missing or were never published (there is no official list of these publications) to the best of our knowledge. For more information, see Ağır and Artunç, "Wealth Tax," 213–16.

Figure 2: Ethno-Religious distribution of Entrants

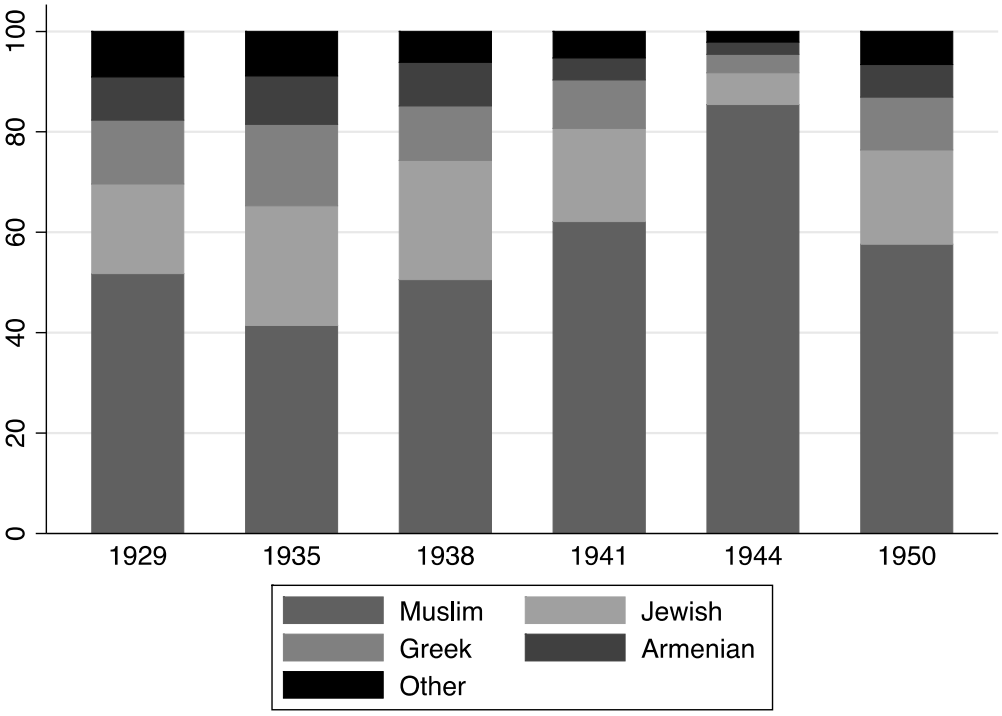
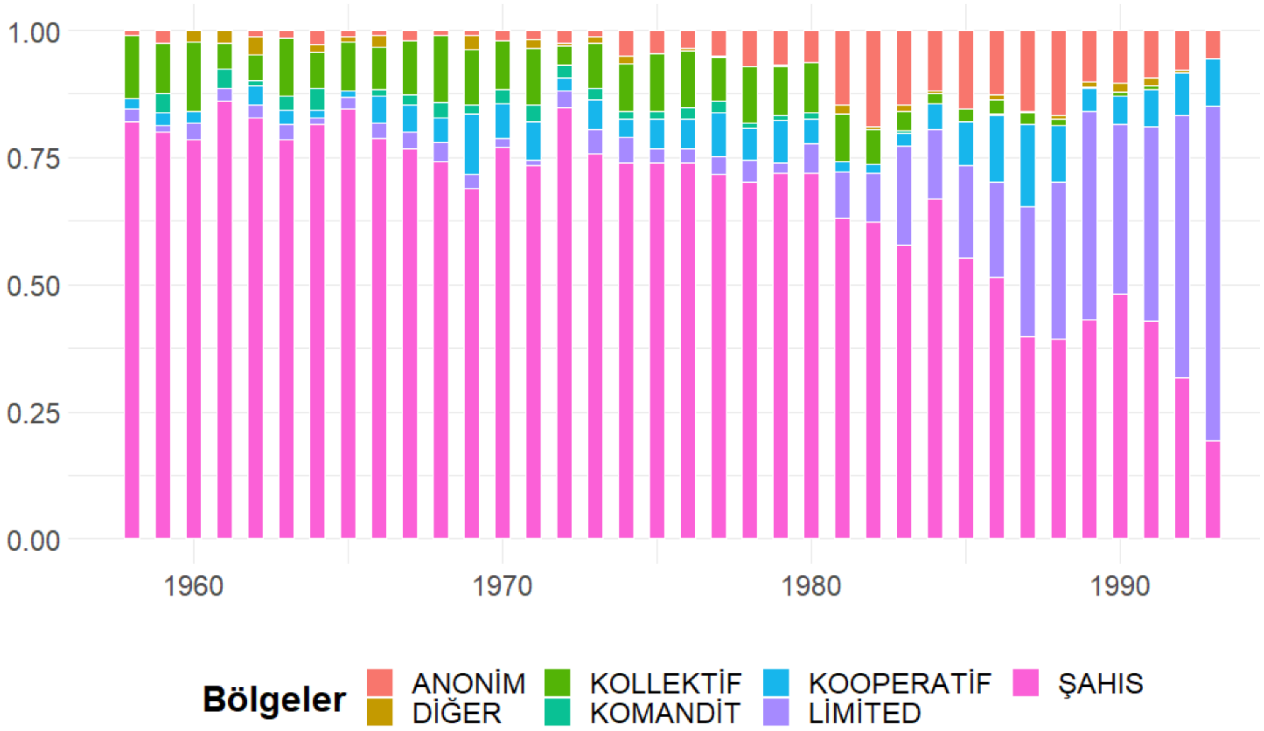


Table 1. Survival Estimates over 3, 6, and 9 Years

	(1)	(2)	(3)
Cross-sections:	1929, 1935, 1938, 1941	1929, 1935, 1938, 1944	1929, 1935, 1941
Dep. Variable:	3-year	6-year	9-year
Partnership	-0.0898***	-0.148***	-0.144***
	(0.0119)	(0.0114)	(0.0132)
PLLC	-0.0534**	-0.0270	-0.103**
	(0.0246)	(0.0250)	(0.0439)
Corporation	-0.000296	0.0182	-0.0108
	(0.0271)	(0.0249)	(0.0407)
Capital = second class	0.0488***	0.0682***	0.0753***
	(0.0163)	(0.0152)	(0.0200)
Capital = first class	0.0504**	0.0507**	0.0717***
	(0.0212)	(0.0199)	(0.0264)
Capital = extraordinary class	0.0180	0.0521*	0.0954***
	(0.0293)	(0.0267)	(0.0354)
Greek	0.0326*	0.133***	0.189***
	(0.0187)	(0.0182)	(0.0335)
Armenian	0.0223	0.124***	0.181***
	(0.0210)	(0.0208)	(0.0374)
Jewish	0.0242	0.109***	0.152***
	(0.0169)	(0.0159)	(0.0287)
Tax	0.00642	0.120***	0.0860***
	(0.0174)	(0.0195)	(0.0221)
Greek*Tax	-0.121***	-0.170***	-0.152***
	(0.0344)	(0.0369)	(0.0407)
Armenian*Tax	-0.148***	-0.228***	-0.194***
	(0.0398)	(0.0412)	(0.0455)
Jewish*Tax	-0.114***	-0.163***	-0.141***
	(0.0290)	(0.0315)	(0.0348)
Constant	0.754***	0.489***	0.312***
	(0.0166)	(0.0147)	(0.0212)
Observations	6,790	9,271	6,767
R-squared	0.051	0.125	0.092

Notes: Columns report the coefficient results of linear probability regressions where the dependent variable is a dummy variable indicating whether a business survived a fixed period of time. This fixed period is three years in column 1, six years in column 2, and nine years in column 3. Each estimation includes (but does not report) the full set of industry dummies, establishment-year dummies, other owner characteristics (e.g. mixed companies) and their interactions with the tax shock (e.g. mixed company interacted with tax treatment). Robust standard errors in parentheses. Significance levels: *** p<0.01, ** p<0.05, * p<0.1

Figure 3: The Distribution of New Firms – Legal Types



Source: Random sample of new firm registrations in 26 cities in Turkey (Trade Registry Gazette-Database).

Table 2: 1958-1993 New Firms – Sample (26 Cities)

Data	single prop	partnership	limited	corporation	cooperative	other	TOTAL
Observations	3866	425	1142	503	427	50	6413
%	**60,28**	**6,63**	**17,81**	**7,84**	**6,66**	**0,78**	**100,00**
Region (number)							
Istanbul	1052	240	519	312	78	15	2216
Istanbul %	**47,5**	**10,8**	**23,4**	**14,1**	**3,5**	**0,7**	**100,0**
Ankara	480	24	247	55	87	0	893
Ankara %	**53,8**	**2,7**	**27,7**	**6,2**	**9,7**	**0,0**	**100,0**
Izmir	212	40	99	20	26	7	404
İzmir %	**52,5**	**9,9**	**24,5**	**5,0**	**6,4**	**1,7**	**100,0**
Large Cities (Bursa, Konya, A	626	32	90	41	77	5	871
Large Cities %	**71,9**	**3,7**	**10,3**	**4,7**	**8,8**	**0,6**	**100,0**
Other cities	1496	89	187	75	159	23	2029
Other cities %	**73,7**	**4,4**	**9,2**	**3,7**	**7,8**	**1,1**	**100,0**
Region (column percent)							
Istanbul	27,21	**56,47**	**45,45**	**62,03**	18,27	30,00	**34,55**
Ankara	12,42	5,65	**21,63**	10,93	20,37	0,00	**13,92**
Izmir	5,48	9,41	**8,67**	3,98	6,09	14,00	**6,30**
Large Cities (Bursa, Konya, A	16,19	7,53	**7,88**	8,15	18,03	10,00	**13,58**
Other cities	**38,70**	20,94	**16,37**	14,91	**37,24**	46,00	**31,64**
SECTORS (number)							
Manufacturing	**684**	**156**	**366**	**193**	**7**	**2**	**1408**
Trade (Total)	**2083**	**181**	**487**	**177**	**47**	**23**	**2998**
Textiles & garments	415	31	133	39	1	4	623
Food & raw inputs	487	26	82	39	13	3	650
Other Trade	1181	124	272	99	33	16	1725
Services	**597**	**53**	**151**	**88**	**38**	**25**	**952**
Construction	**502**	**35**	**138**	**45**	**335**	**0**	**1055**
SECTORS (column percent)							
Manufacturing	**17,69**	**36,71**	**32,05**	**38,52**	**1,64**	**4**	**21,96**
Trade (Total)	**53,88**	**42,59**	**42,64**	**35,33**	**11,01**	**46**	**46,75**
Textiles & garments	10,73	7,29	11,65	7,78	0,23	8	9,71
Food & raw inputs	12,60	6,12	7,18	7,78	3,04	6	10,14
Other Trade	30,55	29,18	23,82	19,76	7,73	32	26,90
Services	**15,44**	**12,47**	**13,22**	**17,56**	**8,90**	**50**	**14,84**
Construction	**12,98**	**8,24**	**12,08**	**8,98**	**78,45**	**0**	**16,45**

Source: Firm Registry Gazette – Random Sample.

Table 3: IşBankası Loans to Firms - Legal Type

	1975		1978		1980		1985		1990	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Corporation	1.504	8.598.908.750	2.019	20.707.422.000	2.501	109.826.255.000	1.904	970.017.382.500	2.363	10.284.318.138.934
Kollektif	1.224	1.209.090.888	1.517	2.033.609.000	627	6.545.676.000	218	60.800.136.000	323	106.545.459.000
PLLC	234	645.771.000	297	1.383.907.001	178	4.514.137.842	137	29.385.531.000	345	948.048.388.000
Single Prop.	1.642	1.893.497.138	3.035	3.776.761.049	1.058	21.612.635.264	954	199.178.724.000	2.423	3.339.895.693.000
Adi Ort.	14	10.292.000	28	20.335.000	8	34.565.000	4	65.350.000	11	3.111.656.000
Adi Kom. Şti.	0	0	1	100.000	0	0	1	30.131.000	1	275.000.000
Adi Kom. Ort.	65	87.524.000	69	184.159.000	24	1.033.653.000	3	245.500.000	10	2.605.000.000
Kom. Şti.	25	59.113.000	14	16.169.000	23	265.005.000	3	878.000.000	0	0
A.O.	6	49.257.000	6	23.195.000	7	152.772.000	11	5.988.251.000	1	16.294.240.000
Yabancı Şirket	47	815.315.000	85	4.505.975.000	95	26.857.730.584	145	356.896.587.000	136	4.236.770.500.000
Kamu	34	590.030.000	62	380.711.734	19	700.674.573	35	27.723.840.000	24	625.898.800.000
Koop.	4	30.900.000	5	5.650.000	3	28.000.000	2	265.200.000	6	1.685.000.000
Dernek	3	2.820.000	0	0	2	340.000.000	1	500.000.000	0	0
Sendika	1	450.000	0	0	1	100.000.000	0	0	0	0
Ülke	0	0	0	0	0	0	3	8.562.756.000	0	0
Toplam	4.803	13.992.968.776	7.138	33.037.993.784	4.546	172.011.104.263	3.421	1.660.537.388.500	5.643	19.565.447.874.934

References

Acemoglu, D., T.A. Hassan and J.A. Robinson. 2011. "Social Structure and Development: A Legacy of the Holocaust in Russia." *Quarterly Journal of Economics*, 126(2): 895–946.

Acemoglu, D. and J.A. Robinson. 2012. *Why Nations Fail*, New York: Crown Business.

Ağır, S., & Artunç, C. (2021). Set and forget? The evolution of business law in the Ottoman Empire and Turkey. *Business History Review*, *95*(4), 703-738.

Ağır, S., & Artunç, C. (2019). The Wealth Tax of 1942 and the disappearance of non-Muslim enterprises in Turkey. *The Journal of Economic History*, *79*(1), 201-243.

Ağır, S. 2017. "Osmanlı İktisat Düşüncesinde Bir Kalkınma Stratejisi Olarak Örnek Alma" in *Türkiye'de İktisadi Düşünce*, (eds.) M.E. Özgür, A. Duman, and A.Y. Kaya, Istanbul: İletişim, pp. 49-92.

Akar, R. 2006. *Aşkale yolcuları: varlık vergisi ve çalışma kampları*, Istanbul: Mep Kitap.

Aksan, V. 2007. *Ottoman Wars, 1700-1870: An Empire Besieged*, Routledge.

Aktar, A. (1990). *Kapitalizm, az gelişmişlik ve Türkiye'de küçük sanayi* (Vol. 5). Afa Yayınları.

Aktar, A. 1999. "Varlık vergisi sırasında gayrimenkul satışları," *Toplumsal Tarih* 69, pp. 10-21.

—. 2000. "Varlık vergisi nasıl uygulandı?" in *Varlık vergisi ve Türkleştirme Politikaları*, İstanbul: İletişim Yayınları, pp. 135-212 (first published in 1996 in *Toplum ve Bilim* 72, pp. 97-147).

—. 2003. "Homogenizing the Nation, Turkifying the Economy: Turkish Experience of Populations Exchange Reconsidered," in *Crossing the Aegean: An Appraisal of the 1923 Compulsory Exchange between Greece and Turkey*, (ed.) R. Hirschon, Oxford: Berghahn Books, pp. 79-95.

—. 2013. "Tax me to the End of my Life: Anatomy of an Anti-minority Tax Legislation (1942-43)," *State-Nationalisms in the Ottoman Empire, Greece and Turkey: Orthodox and Muslims, 1830 – 1945*, (eds.) B. C. Fortna, S. Katsikas, D. Kamouzis and P. Konortas, Routledge, pp. 188-220.

Anderson, R.W., N.D. Johnson, and M. Koyama. 2017. "Jewish Persecutions and Weather Shocks: 1100–1800." *Economic Journal*, 127: 924-958.

Arbatli, C.E. and G. Gokmen. 2016. "Minorities, Human Capital and Long-Run Development: Persistence of Armenian and Greek Influence in Turkey." CESifo Working Paper Series No. 6268
Arbatlı, Cemal Eren, and Gunes Gokmen. "Human capital transfers and sub-national development: Armenian and Greek legacy in post-expulsion Turkey," *Journal of Economic Growth* (2022): 1-43.

Aytekin, E.A. 2012. "Peasant protest in the late Ottoman Empire: Moral economy, revolt, and the Tanzimat reforms," *International Review of Social History*, *57*(2), 191-227.

Altug, S., Filiztekin, A. and Ş. Pamuk, 2008. Sources of long-term economic growth for Turkey, 1880–2005. *European Review of Economic History*, *12*(3), pp.393-430.

Artunç, C. 2015. "The Price of Legal Institutions: The *Berath* in the Eighteenth- Century Ottoman Empire." *Journal of Economic History* 75 (03), pp.720–749.

—. 2017. "The Impact of Business Cycle Conditions on Firm Dynamics and Composition: Enterprise Entry and Exit in Egypt, 1911-48." Mimeo.

Artunç, C., and T.W. Guinnane. 2017. "Partnership as Experimentation: Business Organization and Survival in Egypt, 1910–1949." Yale University Economic Growth Center Discussion Paper No. 1057

Baer, M. 2010. *The Dönme: Jewish Converts, Muslim Revolutionaries, and Secular Turks,* Stanford University Press.

Baker, G. P. and R. E. Kennedy. 2002. "Survivorship and the Economic Grim Reaper." *Journal of Law, Economics, and Organization*, *18*(2), pp.324-361.

Bali, R. 2012. *Varlık Vergisi: Hatıralar-Tanıklıklar*, Istanbul: Libra Yayınları.

Barlas, D. 1998. *Etatism and Diplomacy in Turkey: Economic and Foreign Policy Strategies in an Uncertain World, 1929-1939*, Brill.

Bartelsman, E., S. Scarpetta, and F. Schivardi. 2005. "Comparative Analysis of Firm Demographics and Survival: Evidence from Micro-Level Sources in OECD Countries." *Industrial and Corporate Change,* 14 (3): 365-391.

Bellone, F., P. Musso, L. Nesta, and M. Quéré. 2008. "Market Selection along the Firm Life Cycle." *Industrial and Corporate Change*, 17(4): 753-777.

Bernanke, B. and M. Gertler. 1989. "Agency Costs, Net Worth, and Business Fluctuations." *American Economic Review*: 14-31.

Bird, Richard M. and Eric M. Zolt. 2005. "Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries." *UCLA Law Review* 52, 1627-95.

Boratav, K. 1981."Kemalist Economic Policies and Etatism," in Atatürk: Founder of a Modern State, (eds.) A. Kazancıgil and E. Özbudun, Hamden: Archon Books.

Bowman, Linda. 1993. "Russia's First income taxes: The effects of modernized taxes on commerce and industry, 1885-1914." *Slavic Review*, *52*(2), 256-282.

Buğra, A. 1994. *State and Business in Modern Turkey: A Comparative Study*, Albany: SUNY.

Caballero, Ricardo J. and Hammour, Mohamad L., 1994. The Cleansing Effect of Recessions. *American Economic Review*, 84(5), pp.1350-68.

Cagaptay, S. 2004. "Race, assimilation and Kemalism: Turkish nationalism and the minorities in the 1930s," *Middle Eastern Studies*, *40*(3), 86-101.

—. 2006. *Islam, secularism and nationalism in modern Turkey: Who is a Turk?* Routledge.

Cantillon, R. 1756. *Essai sur la nature du commerce en général. Traduit de l'anglois*. Londres: Chez Fletcher Gyles.

Clark, E. C. 1972. "The Turkish Varlık Vergisi Reconsidered," *Middle Eastern Studies 8*(2), 205-216.

Commons, J. R. (1924). *Legal foundations of capitalism*. Transaction Publishers.

Çetiner, Y. T. 2014. *Turkey and the West: From Neutrality to Commitment*, University Press of America.

Çetinkol, H., Özden T., Kâmuran Yetiş K. ve D. S. Tosbi, (eds.) *Türk Ticaret Rehberi ve Adres Kitabı 1944-1945*. İstanbul: Osmanbey Matbaası.

Çevik, Osman Nuri. (1984). *Limited Şirketler Hukuku ve Uygulaması.*

Chandler, A.D. 1977. *The Visible Hand: The Managerial Revolution in American Business*. Belknap Press.

Cochran, T. 1977. "The Business Revolution." *American Historical Review* 79(01): 449-66.

Deakin, S., Gindis, D., Hodgson, G. M., Huang, K., & Pistor, K. (2017). Legal institutionalism: Capitalism and the constitutive role of law. *Journal of Comparative Economics*, *45*(1), 188-200.

Druker, P.F., 2009. *Innovation and Entrepreneurship*, New York: Harper Collins.

Durdag, Mete. 2012. *Some Problems of Development Financing: A Case Study of the Turkish First Five-Year Plan 1963–1967* (Vol. 4). Springer Science & Business Media.

Dündar, F. 2001. *İttihat ve Terakki'nin Müslümanları İskân Politikası (1913-1918)*, Istanbul.

Eldem, E. 1999. *French Trade in Istanbul in the Eighteenth Century*. Leiden: Brill.

Ersan Yaşar ve Ilhan Can Ozen, 2022. "Once Upon a Time in Anatolia: The Long Run Development Effects of American Missions in Anatolia," ERC Working Papers 2201, ERC - Economic Research Center, Middle East Technical University, revised Jan 2022.

Fourie, J. and D. Fintel. 2014. Settler Skills and Colonial Development: The Huguenot Wine-Makers in Eighteenth-Century Dutch South Africa. *Economic History Review*, 67(4): 932-963.

Glaeser, E.L. 2005. "The Political Economy of Hatred." *Quarterly Journal of Economics*, 120(1): 45-86.

Grosfeld, I., A. Rodnyansky and E. Zhuravskaya. 2013. "Persistent anti-market culture: a legacy of the Pale of Settlement after the Holocaust." *American Economic Journal: Economic Policy*, 5(3): 189-226.

Guinnane, T., R. Harris, N.R. Lamoreaux, and J.-L. Rosenthal. 2007. "Putting the Corporation in its Place," *Enterprise and Society* 8(3):687–729.

Gürsel, S. and Ş. Pamuk 2010. "Macroeconomic policies during the Great Depression: Another look at the Turkish case, 1929-1939" in *Monetary Policy during Economic Crises: A Comparative and Historical Perspective*, (eds.) Y. Görmez et. al, Istanbul: TCBM.

Hale, W. 2012. *Turkish foreign policy since 1774*. Routledge.

Herr, Hansjörg, and Zeynep Mualla Nettekoven. 2018. *The role of small and medium-sized enterprises in development: what can be learned from the German experience?*. No. 53. Global Labour University Working Paper, 2018.

Hsieh, C. T., & Olken, B. A. (2014). "The missing "missing middle"," *Journal of Economic Perspectives*, *28*(3), 89-108.

Hornung, E., 2014. "Immigration and the Diffusion of Technology: The Huguenot Diaspora in Prussia." *American Economic Review*, 104(1): 84-122.

Hsieh, C.T. and Klenow, P.J. 2009. Misallocation and manufacturing TFP in China and India. *Quarterly Journal of Economics*, 124(4), pp.1403-1448.

İçduygu, A., Toktas, Ş., and Ali Soner, B. 2008. "The politics of population in a nation-building process: emigration of non-Muslims from Turkey." *Ethnic and Racial Studies*, *31*(2), 358-389.

Inalcık, H. 1960. "Bursa: XV. Asır Sanayi ve Ticaret Tarihine Dair Vesikalar." *Belleten* 24: 45–102.

—. 1993. "Cizye, Osmanlılarda Cizye", *İslâm Ansiklopedisi*, 8, 45-48.

Issawi, C. 1982. *An Economic History of the Middle East and North Africa*. New York: Columbia University Press.

İstanbul Ticaret ve Sanayi Odası. 1926. *İstanbul Ticaret ve Sanayi Odası Mecmuası*, vol. 42(1-12).

—. 1927. *İstanbul Ticaret ve Sanayi Odası Mecmuası*, vol. 43(1-6).

—. 1929. *İstanbul Ticaret ve Sanayi Odasına mukayyet ticari, sınaî ve malî müesseseler ve efrat*. İstanbul: Marifet Matbaası.

—. 1935. *İstanbul Ticaret ve Sanayi Odası adres kitabı: İstanbul Ticaret ve Sanayi Odasında kayıtlı fevkalade birinci, ikinci ve üçüncü sınıf ticari, sınaî, mali müesseseler*. İstanbul: Marifet Basımevi.

—. 1938. *İstanbul Ticaret ve Sanayi Odası adres kitabı: İstanbul Ticaret ve Sanayi Odasında kayıtlı fevkalade birinci, ikinci ve üçüncü sınıf ticari, sınaî, mali müesseseler*. İstanbul: Marifet Basımevi.

—. 1941. *İstanbul Ticaret ve Sanayi Odası adres kitabı: İstanbul Ticaret ve Sanayi Odasında kayıtlı fevkalade birinci, ikinci ve üçüncü sınıf ticari, sınaî, mali müesseseler*. İstanbul: Marifet Basımevi.

—. 1950. *Adres Kitabı*. İstanbul: İstanbul Ticaret Odası.

Johnson, N.D. and M. Koyama. 2017. "Jewish Communities and City Growth in Preindustrial Europe." *Journal of Development Economics*, 127: 339-354.

Karadayı, F., S. Timur, M. Macura, S. Yener, H. Cillov, H. Tezmen, S. Üner and H.A. Kişnişçi. 1974. *The Population of Turkey*, Ankara: The Institute of Population Studies, Hacettepe University.

Karpat, K. 1985. *Ottoman Population: Demographic and Social Characteristics (1830-1914),* Madison: The University of Wisconsin Press.

Keyder, Ç. 1987. *State & Class in Turkey: A Study in Capitalist Development*. London and New York: Verso.

—. 1994. "Manufacturing in the Ottoman Empire and in Republican Turkey, ca. 1900–1950," *Ottoman Industry in the Eighteenth Century: General Framework, Characteristics, and Main Trends*, (ed.) Donald Quataert, Albany: SUNY, 123-164.

—. 2003. "The Consequences of the Exchange of Populations for Turkey," in *Crossing the Aegean: An Appraisal of the 1923 Compulsory Population Exchange between Greece and Turkey*, ed. Renee Hirschon, New York, Oxford: Berghahn, 39-52.

Keyder, Ç., and A. Öncü. 1994. "Globalization of a Third-World Metropolis: Istanbul in the 1980's," *Review (Fernand Braudel Center)*, 383-421.

Khwaja, A. I. 2010. "Entrepreneurship, finance and the missing middle," Center for International Development at Harvard University, Online Presentation: https://serviciosenlinea.comfama.com/contenidos/servicios/Gerenciasocial/html/Cursos/Harvard/memorias/5-Khwaja_Entrepreneurship_Finance_&_the_Missing_Middle.pdf (retrieved: August 1, 2023).

Kuran, T. 2004. "The Economic Ascent of the Middle East's Religious Minorities: the Role of Islamic Legal Pluralism." *The Journal of Legal Studies* 33(2):475–515.

—. (ed.) 2010. *Social and Economic Life in Seventeenth-Century Istan- bul: Glimpses from Court Records, vol. 1*. Türkiye İş Bankası Kültür Yayınları.

—. 2011. *The Long Divergence: How Islamic Law Held Back the Middle East*. Princeton University Press.

Landau, J.M. 1992. "Main trends of Turkish nationalism in the late nineteenth and early twentieth centuries," *History of European Ideas* 15(4-6), 567-569.

Levinthal, D. A. 1991. "Random Walks and Organizational Mortality." *Administrative Science Quarterly*, 36(3): 397-420.

Mann, M. 1996. "Authoritarian and liberal militarism: a contribution from comparative and historical sociology," *International Theory: Positivism and Beyond*, (eds.) S. Smith et. al., Cambridge: Cambridge University Press.

Mitra, A. and D. Ray. 2013. Implications of an Economic Theory of Conflict: Hindu-Muslim Violence in India. NBER Working Paper No. 19090.

Morack, E. 2017. *The Dowry of the State? The Politics of Abandoned Property and the Population Exchange in Turkey, 1921-1945* (Vol. 9). University of Bamberg Press.

Moreira, S. 2016. "Firm Dynamics, Persistent Effects of Entry Conditions, and Business Cycles." Mimeo.

North, D.C., Wallis J.J. and B.R. Weingast. 2009. *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History,* Cambridge: Cambridge University Press.

Owen, Roger. 1993. *The Middle East in the World Economy, 1800-1914*. London: I. B. Tauris.

Owen, R., and Ş. Pamuk. 1998. *A history of Middle East Economies in the Twentieth Century*. IB Tauris.

Ökçün, A. G. 1970. *Osmanlı Sanayii, 1913, 1915*, Ankara: SBF Yayınları.

Ökte, F. 1951. *Varlık Vergisi Faciası,* Istanbul: Nebioglu.

Özar, Ş. *Micro and Small Enterprises in Turkey : Uneasy Development*, ERF Research Report Series No : 0420.

Özel, Işık. 2014. *State-business alliances and economic development: Turkey, Mexico and North Africa*. Routledge.

Özmucur, S., and Ş. Pamuk. 2002. "Real wages and standards of living in the Ottoman empire, 1489–1914," *The Journal of Economic History*, *62*(2), 293-321.

Pamuk, Ş. 2001. "Intervention during the Great Depression; Another look at the Turkish experience" in *Mediterranean Responses to Globalization before 1950*, (eds.) J. Williamson, Routledge.

—. 2014. *Türkiye'nin 200 yıllık iktisadi tarihi*, Istanbul : İş Bankası Yayınları.

Panzac, D. 1992. "International and Domestic Maritime Trade in the Ottoman Empire during the 18th Century." *International Journal of Middle East Studies* 24 (02):189–206.

Pascali, L., 2016. "Banks and Development: Jewish Communities in the Italian Renaissance and Current Economic Performance." *Review of Economics and Statistics*, 98(1): 140-158.

Phillips, Christine, and Seema Bhatia-Panthaki. "Enterprise development in Zambia: reflections on the missing middle." *Journal of International Development: The Journal of the Development Studies Association* 19.6 (2007): 793-804.

Pollack, S. D. 2010. *Failure of US Tax Policy: Revenue and Politics*, Penn State Press.

Seker, Murat, and Paulo Guilherme Correa. "Obstacles to growth for small and medium enterprises in Turkey." *World Bank Policy Research Working Paper* 5323 (2010).

Samuels, W. J. (1988). Legal--Economic Nexus. *Geo. Wash. L. Rev.*, *57*, 1556.

Scheve, K. and D. Stasavage. 2016. *Taxing the rich: A history of fiscal fairness in the United States and Europe*, Princeton University Press.

Sönmez, M. 2004, *Türkiye Ekonomisinin 80 Yılı*, Istanbul: İTO.

Taymaz, E. (1997). *Small and medium-sized industry in Turkey*. Ankara, Turkey: State Institute of Statistics.

Taymaz, E. (2005). "Are small firms really less productive?," *Small Business Economics*, *25*, 429-445.

Taymaz, E. (2001). Small and medium sized enterprises in Turkish manufacturing industries. *Journal of Economic Cooperation*, *22*(1), 43-72.

Tezel, Y. S. 2015 (1982). *Cumhuriyet dönemi iktisadi tarihi: 1923-1950*, Istanbul: İş Bankası Yayınları.

Toprak, Z. 1995. *Milli İktisat-Milli Burjuvazi: Türkiye'de Ekonomi ve Toplum; 1908-1950*. Tarih Vakfi Yurt Yayinlari.

Tsaedu, K. G., Chen, Z., & Azmete, H. W. (2023). "Firm Size Distribution in African Manufacturing Firms: Revisiting the 'Missing Middle'," *Journal of African Economies*, *32*(2), 137-150.

Turkey. 1923. *TBMM Zabıt Ceridesi*, 2. Dönem, 3. Cilt, 55. Birleşim, (10.11.1339), p. 440.

—. 1935. *Genel nüfus sayımı, 20 ilkteşrin 1935: Türkiye nüfusu kati tasnif neticeleri (Recensement général de la population au 20 octobre 1935 : population de la Turquie résultats défenitis)*. Istanbul: Devlet Basımevi.

—. 1953. *Statistical Resumés* No: 10, Ankara.

Tybout, J. (2014). "The missing middle, revisited," *Journal of Economic Perspectives*, *28*(4), 235-36.

Tybout, James R. 2000. "Manufacturing Firms in Developing Countries: How Well Do They Do, And Why?" *Journal of Economic Literature* 38(1): 11–44.

Üngör, U., and M. Polatel, 2011. *Confiscation and Destruction: The Young Turk Seizure of Armenian Property*, Bloomsbury Publishing.

Varlı, A. ve M. Koraltürk. 2010. "II. Meşrutiyet'ten Erken Cumhuriyet'e Milli İktisadın Sürekliliği Ve İzmir İktisat Kongresi*," Çağdaş Türkiye Tarihi Araştırmaları Dergisi*, 9(20), pp. 127-142.

Voigtländer, N. and Voth, H.-J. 2012. "Persecution Perpetuated: The Medieval Origins of Anti-Semitic Violence in Nazi Germany." *Quarterly Journal of Economics*, 127(3): 1-54.

Williamson, Samuel H. 2018. "Seven Ways to Compute the Relative Value of a U.S. Dollar Amount, 1774 to present." Measuring Worth, URL: www.measuringworth.com/uscompare.

Zürcher, E. J. 2004. *Turkey: A Modern History*. IB Tauris