

# A Case of Informal Deal: Merger of Turkish Sugar Companies in 1935

Özgür ÇETİNER<sup>1</sup>

<sup>1</sup> Assoc. Dr , Bilecik Seyh Edebali  
University, Bilecik/Türkiye  
ORCID: [0000-0001-5830-2587](https://orcid.org/0000-0001-5830-2587)  
E-Mail:  
[ozgur.cetiner@bilecik.edu.tr](mailto:ozgur.cetiner@bilecik.edu.tr)

**Corresponding Author:**  
Özgür ÇETİNER

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## Abstract

*Sugar, which causes political tensions, has been the subject of many studies in the history of Turkey. Especially, the first half of the 1930s was a period when this tension was felt the most and the problem was brought to the newspapers and the parliament. The year 1935, when the sugar companies were merged, was a turning point in terms of the debates. The new company established as a result of the merger and the price reduction created a strong legitimization ground for the government. Nowadays, the issue of merger is frequently analyzed in studies on sugar companies. Even today, it is possible to see the affirmative power of the legitimacy ground created in these studies dominated by a developmentalist language. However, the 'merger text' that is the source of the studies in the literature does not have a legal record. Moreover, Law No. 2785, the only legal regulation associated with price cuts and mergers, is neither related to prices nor to mergers. This study argues that the merger of sugar companies was a de facto capitalization transaction, a bargain-based financial operation carried out in the informal field. The illusion created by the aforementioned unrelated law provided a perception of legitimacy to the extent that it rendered invisible the informal bargain with the shareholders of the companies, while on the one hand, it ensured a price decrease accompanied by strict measures. This informal bargaining process, in which the value increases achieved through capitalization were redistributed among shareholders, was formalized through the establishment of Türkiye Şeker Fabrikaları A.Ş.*

**Keywords:** *Veblen, Capitalization, Sugar*

## Öz

*Siyasal gerilimlere sebep olan şeker, Türkiye tarihinde pek çok araştırmaya konu olmuştur. Özellikle 1930'ların ilk yarısı, bu gerilimin en fazla hissedildiği dolayısıyla sorunun gazetelere ve meclise taşındığı bir dönemdir. Yaşanan tartışmalar açısından şeker şirketlerinin birleştirildiği 1935 yılı dönüm noktasıdır. Birleşme sonucunda kurulan yeni şirket ve yapılan fiyat indirimi hükümete güçlü bir meşruluk zemini yaratmıştır. Günümüzde şeker şirketlerine ilişkin yapılan çalışmalarda birleşme konusu sıklıkla işlenmiştir. Kalkımcı bir dilin hâkim olduğu bu çalışmalarda yaratılan meşruluk zemininin olumlayıcı gücünü bugün bile görmek mümkündür. Ancak literatürdeki çalışmalara kaynaklık eden 'birleşme metninin' yasal bir kaydı yoktur. Ayrıca fiyat indirimi ve birleşmeyle ilişkilendirilen ve tek yasal düzenleme olan 2785 Sayılı Kanun ne fiyatlarla ne de birleşmeyle ilgilidir. Bu çalışmada şeker şirketlerinin birleştirilmesinin, enformel alanda gerçekleştirilen pazarlığa dayalı finansal bir operasyon olarak, de facto bir kapitalizasyon işlemi olduğu iddia edilmektedir. Sözü edilen ilişkisiz yasayla yaratılan illüzyon, bir yandan sıkı tedbirler eşliğinde fiyat düşüşü sağlamış diğer yandan şirketlerin hissedarlarıyla girilen enformel pazarlığı görünmez kıldığı ölçüde meşruluk algısı oluşturmıştır. Kapitalizasyonla sağlanan değer artışlarının hissedarlar arasında yeniden dağıtıldığı bu enformel pazarlık süreci formalize edilerek Türkiye Şeker Fabrikaları A.Ş. kurulmuştur.*

**Anahtar Kelimeler:** *Veblen, Kapitalizasyon, Şeker*

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## Introduction

Sidney W. Mintz, in his study titled *Sugar and Power*, emphasized the power of sugar in determining national policies by stating that "there is no other foodstuff that is subject to as many political games as sugar in the world market" (1997, p. 268). Moreover, he claimed that it was a foodstuff with the power to influence the 'political future' (p.72). Similarly, Albert and Graves argued that sugar was 'the most political product' and that European producers often relied on intensive state protection (1988, pp.3-4). Sugar, which can be so influential in the shaping of the political sphere, has had a position in Turkey, especially in the early republican history when sugar production started, which has been mentioned a lot with a nationalist discourse and has caused the most political tension to this extent.

The establishment and structuring processes of sugar companies in Turkey were completed in the first half of the 1930s. In this period of time, which was not without controversy, the subject of sugar was frequently discussed both in the works of the period and today. Under the influence of the developmentalist discourse, 'rationality' was the most important concept that came to the forefront in studies that emphasized 'factories' rather than companies. In terms of the ongoing debates, 1935, when the companies were merged, is a turning point. This process, which the government legitimized by lowering sugar prices, was announced in all publications of the period, accompanied by police measures on prices. This study argues that the merger was an example of de facto capitalization as a result of an informal bargain with the shareholders of the companies. The merger transaction, which is a financial operation within this framework, increased the assets of the new company and allowed for the redistribution of the resulting shares.

In the study, the literature on the subject is first analyzed. In this framework, both the studies of the period and the works of contemporary authors are analyzed and the common aspects and conclusions of the studies are criticized. In the following section, the causality relationship is determined by approaching the issue from a theoretical perspective. After the section analyzing

the relationship between banks and sugar companies, which constitutes the background of the issue in Turkey, the merger process and the findings obtained are discussed in the last section of the study.

## Method

This study is typically a qualitative case study: a case of 'sugar' during a period between the early years of the Republic until 1935 in Turkey. Document analysis is a type of qualitative research in which the researcher interprets documents to provide information on a certain topic (Bowen, 2009). Documents being valuable sources of information in qualitative research it uses document as a tool of analysis. Written documents provide an in-depth understanding of the past and its socio-political and economic relations. In this study, which aims to provide a historical, qualitative and critical analysis of 'the sugar' issue, written documents from primary and secondary sources were analyzed in order to understand and reveal the political and economic relations between actors and institutions of the period. Primary sources were obtained from the Ankara Chamber of Commerce Archive, Istanbul Chamber of Commerce Archive, Cumhuriyet Archive, Minutes of Minutes and registered trade newspapers. In this study, the decisions, discourses and intentions of the rulers and all the other actors of the period, as historical figures, were critically analyzed to reveal the results of the decisions.

## Literature review

The first studies on the subject were written by various authors of the period. Although they are viewed from different perspectives, it is seen that they are mostly based on variables such as prices, costs and rationalization (Nafiz, 1930; Süreyya, 1932; Süreyya, 1933; Süreyya, 1934; Abidin, 1934; Tahsin, 1934; Tahsin, 1935; Mikusch, 1934; Gedik, 1955). What most of them agree on is the concept of 'rationalization'. Where they differ is on the sources of rationalization. According to the studies, the fact that 'factories' do not work rationally leads to inefficient beet production and

high prices (Nafiz, 1930, p.225-227). In another study, while inefficient production was accepted, it was claimed that the absence of "statist economic control" and a "national regulation plan" was the main problem that beet prices were not high (Süreyya, 1932, pp.14-15). While the common point of some studies was the high profit rates and depreciation of the companies (Süreyya, 1933, pp.11-15; Süreyya, 1934, pp.47-48; Tahsin, 1934, p.19), another one pointed to the "balance sheet games" of the companies (Tahsin, 1935, p.330). There were also studies that explained this 'irrationality' with high beet prices and suggested a tax on farmers (Mikusch, 1934, p.47). The most distinctive criticism of the period, albeit at a later date, is that the company in Uşak was collapsed by various commercial tactics through Turkish Bank of Industry and Mines (*Türkiye Sanayi ve Maadin Bankası*) and İş Bank circles (Gedik, 1955, pp.7-8). This situation has been extensively analyzed in a recent study (Şeker, 2015).

The sugar issue is also frequently observed in studies outside the authors of the period. Although each of them provides valuable and important details, the common feature in the studies is the developmentalist language similar to that of the writers from the period, without criticizing the companies (Veldet, 1958; Akıltepe et al., 1964; Taygun, 1993; Karayaman, 2010; Karayaman, 2012; Damlıdağ, 2017a; Damlıdağ, 2017b; Damlıdağ, 2018; Mert, 2018; Aydemir, 2019; Önder and Oğur, 2019; Özer, 2021; Ayan, 2022). In most of the studies, developmentalist elements are presented as success stories of 'meeting the needs of the people' and 'common good', either in the works published by the sugar company itself (Veldet, 1958; Akıltepe et al., 1964; Taygun, 1933) or in independent works (Karayaman, 2010, p.191-192; Karayaman, 2012, p.80; Damlıdağ, 2017a, p.142; Damlıdağ, 2017b, p.173; Mert, 2018, pp.236-238; Aydemir, 2019, p.39; Önder and Oğur, 2019, pp.33-47; Özer, 2021, pp.106-107,119) or as a narrative of complete failure (Ayan, 2022). On the other hand, it is also possible to find studies addressing the irregularities of sugar companies, especially Istanbul and Trakya Şeker Fabrikaları T.A.Ş (*Alpullu Company*) (Damlıdağ, 2017a, pp.148-149; Karayaman, 2012, pp. 71-72; Ayan, 2022). Some studies have reached opposite conclusions.

According to Aydemir (2019), 'Successful performance' led to the establishment of new sugar companies and therefore the companies were merged in 1935 (p.39), while according to Damlıdağ (2017a), 'astonishingly decreasing sugar prices' made the operation of the factories difficult and left 'little space for profit of private sector'. The solution was to 'nationalize' the companies to reduce costs (p.150). Veldet's study, which contains detailed information, is the main source used in many other studies. It is almost the only source on the merger of sugar companies, which is also the subject of this study (1958, pp.558-575). The 'Sugar Rationalization Committee' report and the 'İnönü Project', which included the formal merger procedure of the companies and resulted in the enactment of Law No. 2785, were largely explained directly or indirectly based on the relevant source (Karayaman, 2012, pp.80-81; Damlıdağ, 2018, p.154; Damlıdağ, 2017a, p.147; Mert, 2018, pp.206-212; Özer, 2021, p.110; Ayan, 2022, p.87). Moreover, including studies not directly related to sugar, the merger process was interpreted as a 'nationalization' practice (Apak et al., 1952, pp.238-239; Tekeli and İlkin, 2009, p.205; Karayaman, 2012, p.87; Damlıdağ, 2017a, p.147,150; Özer, 2021, p.120).

The unit of analysis in all studies on sugar is the 'going plant' as Commons (2017, p.187) puts it. However, companies are not 'going plants' but 'going concerns'. The sole purpose of a 'going concern', which is to produce exchange values, is profit. Therefore, companies are merely financial entities. The concept of 'factory' (Zabit Ceridesi [ZC], 12 Haziran, 1935) and the developmentalist language that is an extension of it, which were used by the state officials of the period partly to represent their views on the subject and partly as a legitimizer, were accepted without question, as shown in the studies. However, sugar companies are financial units whose balance sheets are composed of debts and equities, have shareholders, make profits and even resort to the 'balance sheet game' (Tahsin, 1935, p.330) to hide high profits. Furthermore, the 'committee report' and the 'project text' in Veldet (1958), which were written by actors who directly benefited from the process, were taken as if they were independent of these actors. However, as shown in this study, the

'committee' or 'project' is a product of informal negotiations with sugar company actors. Most of today's publications reproduce the same developmentalist discourse in these texts (Apak et al., 1952; Tekeli and İlkin, 2009; Karayaman, 2012; Damlıdağ, 2017a; Damlıdağ, 2018; Mert, 2018; Özer, 2021).

### Theoretical Framework

Veblen defines the corporation not as an 'industrial unit' but as a 'business concern' (1923, p.82). In other words, companies whose purpose is to make private profit are inherently monetary institutions. As Commons states "the going plant is a producing organization furnishing a service to the public, but the going business is a bargaining organization obtaining prices from the public (2017, p.182). For this reason, for Veblen, business and industry are seen as two separate fields. While the industrial sphere defines the activities in which production knowledge is socially produced and mechanized, business operates through property and power. Therefore, while industry is built on the use of technology, business can only exist and profit from intangible assets, i.e. intangible relationships between people that are independent of production and based on control, such as property, monopoly and patent rights that are outside of industry. In reality, the reason for the existence of an industrial enterprise is immaterial assets (Veblen, 1932, p.143). Since ancient times, the best known of intangible assets is 'good-will'. With capitalism, the current meaning of 'good-will' has transformed into assets that have value in the market, including various monopoly rights, franchises, trademarks, trade-secrets (Veblen, 1919a, p.71-72). Therefore, along with the tangible assets defined as 'going plant', intangible assets are also considered as capital. Both intangible and tangible assets are capital. In other words, they are parts of capitalized wealth. Both categories of assets represent expected income streams, which have a property that allows them to be valued in percentage terms (Veblen, 1919b, p.373). It is the monetary gain that determines the value of capital, which is not a physical quantity. Therefore, the value of capital is equal to capitalization, which is the present monetary value of expected future

income streams. More precisely, capital is the quantitative property rights over tangible/intangible assets that are expected to generate income streams (Cochrane, 2011, p. 92).

Veblen also gave credit an important place in modern business finance as an apparatus of capitalization. Just like other categories of assets, credit is a value capitalized in proportion to earnings. "The corporation is an incorporation of credit, capitalized on the basis of the funds invested and to the amount of its prospective earning capacity" (1923, p.93). In reality, a corporation is an organization in which each of the participants - employees, lenders (debt), shareholders (equity) - is a creditor, even though their positions on the balance sheet (assets/liabilities) are different. "Each is but a creditor of the going business as a unit, while the going business, as the identical unit, is the debtor." (Commons, 2017, p. 161). The 'good-will' that constitutes the core of capitalization functions as collateral shown in the use of credit that exceeds the tangible assets of the enterprise. Especially in cases where the lenders are also the owners of the company, a large debt profile is often encountered during the establishment phase of companies (Veblen, 1932, pp.116-119). In this sense, according to the perspective of the company built on the indebtedness relationship, all funds consisting of debt and equity, including credit instruments, are capitalized with the privilege of intangible assets. Therefore, credit expansion plays a critical role in Veblen's logic of corporate finance.

Credit expansion performs a similar capitalization mechanism in mergers, but with a much broader specific function. Mergers are by their very nature not only a structural transformation of the company but also a financial transaction. The buying and selling of capital through mergers give it a monetary value. In short, capital itself becomes a saleable commodity (Nitzan, 1998, p.191). Credit is the most important instrument that mediates this sale process. The reorganization of a large-scale company is the mobilization of an important business strategy that requires a high level of responsibility and capability. Such a strategy is built on extensive credit relationships such as financial support, acquisition, leasing, issuance and transfer of debts

and equities (Veblen, 1932, p.121). The objective of those who manage the process through this financial operation is to obtain a credit-based bonus with the merger. Veblen stated that this operation was a routine and usual method for business.

The bonus which so lay at the root of these early reorganisations of industrial business habitually took the shape of a block of corporation securities representing new capital values added to the total capitalisation in the operation of recapitalising the underlying properties; the capitalised value--face value, book value-of these properties being thereby augmented by that much (Veblen, 1923, p.344).

The 'bonus' received by the organizers of the process and 'bonus' included in the total capitalization is not a new acquisition of capital or a new addition to tangible assets. It appears on the balance sheet in the form of debts added to the total of the company's securities resulting from the recapitalization. The result is a simple credit transaction in which a new loan is created. In other words, such a financial operation is the expression of a process by which old values are redistributed under the cover of imaginary new assets (Veblen, 1923, p.345). Underlying this type of operation may also be the function of concealing the high indebtedness of the merged companies. Even more than that, if the merged company is in insolvency, the debts evaporate through 'good-will'. "Every merger transmuted net liabilities into fictitious assets. This is accounting alchemy. Every dollar of goodwill made a dollar of insolvency disappear" (Black, 2005, p.29).

### **Banks and Sugar Companies**

The need for a bank and credit came to the forefront as a prominent demand in the İzmir Economic Congress in the form of both a 'main bank for trade' and a bank that could provide 'industrial credit' (Ökçün, 1997, pp.339,356-357). The first of these demands was realised with the establishment of *İşbank* (1924) and the second with the establishment of *Türkiye Sanayi ve Maadin Bankası* (1925). *Ziraat Bank*, established in 1888 for agricultural credit, was transformed into a joint stock company in 1926. (Atasagun, 1939, pp.21,33).

The 1929 Depression-induced accumulation crisis brought about the effective intervention of the state in the process within a 'plan'. The most important apparatus of the plan to be implemented was the banks. However, the participation of *İşbank*, which had been involved in the sugar business since 1926, in the sugar companies that were excluded from the plan was made possible through the invented category of 'national enterprises' (Tekeli and İlkin, 2009, pp.188,191).

The first company established in Uşak in 1923 was *Uşak Terakki Ziraat T.A.Ş.* (Uşak Company), which, although started its operations at a later date, was not affiliated with *İşbank* and its team, but in the following days entered into an obligatory loan-debt relationship with *Turkish Bank of Industry and Mines* (Türkiye Sanayi ve Maadin Bankası) (Karayaman, 2010, p.15). *Sümerbank* (1933), which was established to replace *Turkish Bank of Industry and Mines*, *İş Bank*, which established the second company, *İstanbul ve Trakya Şeker Fabrikaları A.Ş.* (Alpullu Company) in 1926, and *Ziraat Bank*, which had been associated with the company since its foundation, played an active role in organizing the sugar business, which had been kept out of the plan, in the form of a company. Just like its predecessor, *Turkish Bank of Industry and Mines* and *Sümerbank*, which, according to Article 11 of its founding law, was empowered to corporatize the enterprises it took over and, if necessary, to establish company partnerships that could be outside the plan through subsidiaries, established partnerships in various fields other than sugar throughout the period, especially with *İş Bank* (RG, 11 Haziran 1933, 2424).

Founded with 50 partners, Uşak Company's capital was 300 thousand Liras. The company's capital was increased to 1.2 million liras in 1925 and 1.5 million liras in 1926 (Karayaman, 2010, pp.15,74). 250 thousand liras of the capital was sold to the Czechoslovak Skoda company, which had set up the factory, on the condition that it would be bought back in six equal installments (Şeker, 2015, p.76). The shares held by the Skoda company were later transferred to Turkish Bank of Industry and Mines. The company suffered continuous losses between 1925 and 1930 and was decided to be liquidated in 1931 and was transferred first to the *Turkish Bank of Industry and Mines* then to the State

Industry Office in 1933 and to *Sümerbank*, which was established in the same year (Karayaman, 2010, pp.111-114). While the initial capital of the Alpullu Company was 500 thousand, this capital was increased to 750 thousand and 3 million in 1927 and 1933, respectively (RG, 3 Aralık 1933, 2568). According to the information provided by Nafiz (1930, p.221), the company capital was 750 thousand, of which 300 thousand Liras belonged to *İşbank*, 100 thousand liras to *Ziraat Bank*, 310 thousand liras to private individuals and 40 thousand Liras to the provinces of Kırklareli and Edirne. Probably these share ratios did not change until the company was liquidated. On the other hand, even though the nominal capital of the company appears to be 3 million Liras, 1.875.000 liras of this capital was paid until 1935 when the company was liquidated (Veldet, 1958, p.304). The third sugar company established in 1933 with monopoly rights granted in designated cities (RG, 24 Nisan 1933, 2383) was named *Anadolu Şeker Fabrikaları T. A. Ş.* (Anadolu Company), with 30 thousand shares of 100 liras and a capital of 3 million Liras, one fourth of which was paid. The company's shares were divided among *İşbank* (1.52 million liras), *Ziraat Bank* (725 thousand liras), and *Sümerbank* (735 thousand liras). The remainder of the capital was given to *Muhammer Eriş* and *Mümtaz Bey* with 10 thousand liras each (Ankara Ticaret Odası, 1933). The last company, *Turhal Şeker Fabrikaları T. A. Ş.* (Turhal Company), was established in 1934. Just like the *Anadolu Company*, the company was established with monopoly rights and privileges (RG, 27 Kasım 1933, 2563) in designated cities. 1.38 million liras of the company's capital belonged to *İşbank* and 1.5 million liras to *Ziraat Bank*. The remaining capital was divided among the board of directors of the banks, each with 10 thousand liras (Ankara Ticaret Odası, 1934).

Although there is not enough data to make a detailed determination, it is observed that companies have credit relations with banks to an extent that far exceeds their allocated capital shares. The table below shows this relationship between companies and banks, and hence the state, in terms of subsidiaries and loans. The volume of sugar companies is clearly visible in the table for both *İşbank* and state banks. In 1935, the

year of the merger, the sugar companies had reached an indisputable volume in terms of total shareholding.

**Table 1: Banks and Companies' Indicators**

	İş Bankası	Sümerbank	Ziraat
Sugar Subsidiaries / Total Subsidiaries %			
1934	26,70	32,20	45,59
1935	41,45	82,27	72,68
1938	39,89	39,05	52,42
Sugar Subsidiaries / Bank Capitals %			
1934	73,00	5,59	8,71
1935	146,68	40,96	24,84
1938	146,68	17,82	22,27
Sugar Profit / Total Profit %			
1934	106,42	43,87	47,76
1935	56,13	36,49	59,53
1938	64,74	79,98	29,52
Credits (Current Debtors) (Million TL)			
1934	16,41	4,45	22,93
1935	13,67	6,23	15,65
1938	26,41	5,60	26,41
Krediler			
	Alpullu	Anadolu	Turhal
1934	6,78	6,03	3,77

*Kaynak: İş Bankası Bilançoları, 1934, 1935, 1938; Ankara Ticaret Odası, 1933, 1934; UMH, 1938a, 1938b, 1941, 1940; Veldet, 1958, s. 159; Karayaman, 2010, s.51.*

For *İşbank*, which 'participated' in 74 companies other than sugar companies throughout the 1930s, with or without state affiliation, the share in its total subsidiaries reaches 40 percent. The power of sugar companies is also quite evident in terms of the individual capital of banks. In particular, sugar subsidiaries, which exceeded 70 percent of *İşbank's* capital before the merger, exceeded 46 percent of the bank's own paid-in capital after the merger. For *Sümerbank*, the same ratio reaches 40 percent. Net profits from sugar companies, on the other hand, strongly feed the net profits of all related banks, and as in the case of *Sümerbank*, the ratio rises to 80 percent. Again, for *İşbank*, the merger led to a dramatic decline in profitability. In fact, for *İşbank*, which earned more profit from sugar companies than it did from its own banking activities before the merger, there was a dramatic decline (from 106

percent to 56 percent). Nevertheless, it continues to receive more than half of its banking profits from sugar companies. In terms of loans, *Sümerbank* was in the weakest position. This issue was frequently brought up in the delegation reports and it was stated that most of the insufficient resources were transferred to the institutions with which the bank was associated (UMH, 1938a, p.28; UMH, 1940, p.34). Debt totals, which show the current accounts in the liabilities of the companies, were quite high. There is insufficient data on the debts borrowed largely from the same banks.

### **Merging Sugar Companies through Informal Capitalization**

As the first half of the 1930s came to an end with high prices, high company profits and the constant news of black marketeering, *Bayar*, the Deputy Minister of Economy, tried to justify the reactions on prices and profits in general. To this end, he defended the activities of the companies in the parliamentary debates on high prices, 'abnormal profits' and the share of the treasury. He stated that sugar production was a very risky and 'dangerous' business and that the *Uşak Company* had caused problems for years and the *Alpullu Company* had suffered losses for years due to drought. *Bayar* continued, "Now they are in the profit period. This year's profit is unusual". He also cited from one of the shareholders of the *Alpullu* factory, of which they speak of high profits, that he was "worried about the high profits and that the factory would not only overwork and the depreciation they had allocated would not be enough, but that it would be necessary to rebuild the factory by allocating new facility costs" (ZC, 21 Nisan 1934, p.105).

He also stated that he himself did not understand the calculating cost prices as it was a technical task and therefore invited an expert to the country and asked him questions (ZC, 21 Nisan, 1934, pp.105-106). *Mikusch*, who legitimized *Bayar*'s views and the activities of the companies to a great extent with his report, was asked to answer questions about the state of the sugar industry in Europe, beet prices, sugar quality and prices, the amount of taxes, forms of patronage, profits and their comparison with Turkey, the cost of sugar in the country and the reduction of this

cost, and taxes. Accordingly, *Mikusch* mentioned "overproduction", which was frequently emphasized in the report by the "committee" whose opinion would be requested the following year and stated that beet production in Turkey was alarming at the point of "overproduction" (1934, pp. 15,44). According to *Mikusch*, in connection with the overproduction, "the factories may even be completely ruined due to the excessive accumulation of stocks." Elsewhere in the report, the expert, referring to prices, stated that beet prices were high and suggested taxing the farmers. He also stated that sugar prices were not high and that the public should make sacrifices for the establishment of such an industry (1934,47,50-53).

The expert's report does not appear to have been satisfactory. There were various criticisms of the report. *Sait Tahsin* carried out two different studies on this subject. The first one (1934) was on the relationship between beet and sugar prices and the second one was a response to *Mikusch's report* (1935). The author stated that beet prices were not high in Turkey based on international comparisons and criticized the fact that beet prices were considered as direct income when all costs, including high depreciation, were deducted when calculating the profits of sugar companies (Tahsin, 1934, p. 19). In the second study (1935, p. 330), Tahsin criticized the expert's report and stated that sugar companies were "playing with the figures in the balance sheet" and underestimating their profits with high depreciation. The issue of depreciation is also critical in the report to be prepared by the 'committee' after the 'overproduction'. As a result, the discontent created by high profits and high prices, as well as corporate activities that did not meet social needs, in the case of sugar, became a concrete reality in the first half of the period. This situation manifested itself throughout the period as the incompatibility of social needs with the profitability criterion that "commercial activity can bear" mentioned by Veblen (2011, p. 64).

### **Merging Conditions of Companies**

A team of seven people, including *Şakir Kesebir* and *Muhammer Eriş*, largely composed of MPs and bank executives, published a report under the

name 'Sugar Rationalization Committee'. Based on this report, the so-called '*İnönü Project*', which was stated to reflect the 'government view', was put into practice. The most important issue emphasized in the report was the issue of 'overproduction'. "A situation of overproduction, which could easily occur, could cause a dangerous shake to the national wealth invested in this industry" (Veldet, 1958, p. 558). "Our factories [...] have the obligation to produce limited quantities [...] if this is not respected, a situation of overproduction would result" (Veldet, 1958, p. 562). Again, in another part of the report, as a result of the cultivation of illegal beets with illegal seeds, "factories [...] are obliged to produce sugar and in this way, a situation of overproduction is easily reached" (p. 567). In order to solve this 'problem', sugar production was restricted. Accordingly, 65,000 tons was accepted as a 'normal' capacity and 75,000 tons was projected as total annual consumption, including 10,000 tons of imports. This constraint was reinforced by a flexible tax scheme that penalized production (UMH, 1943, p.10).

Another issue in the report is the matter of interest, capital and depreciation. The report states that until then, the companies had been operating with an insufficient amount of capital that did not even cover their fixed capital, and that this deficit was covered by banks through interest payments. It was stated that since the new company would have a capital equivalent to fixed assets, the need for external financing would be reduced and costs would decrease through the reduced amount of loans and interest rates (Veldet, 1958, p.568). On the other hand, the report also specified the conditions regarding the liquidation of the companies and the capital composition of the new company. Accordingly, it was stated that the capital of the company to be established with the equal capital of the three banks could be accepted as 22.5 million and that the banks could transfer as much of their shares as necessary to the founders and members of the board of directors, thus liquidating the shares of the Alpullu Company belonging to individuals. It was also stated that the banks would retain their right to purchase shares in proportion to the fixed assets they would bring to the new company (Veldet, 1958, p.561). Again,

regarding depreciation, the report explicitly stated that the old practices should not be taken into consideration. Therefore, in the calculation of the fixed assets of the old companies that would be transferred to the newly established company as capital, it was stated that the previous depreciation rates should 'in no way be taken into consideration' (1958, p.560). Regarding the formation of the new company capital, the merger method required for the merger of companies and the establishment of a new one is also explained in the report. The 'holding' form was seen as an obstacle to 'rational' production and it was argued that it would serve the 'narrow interests of the companies' rather than the needs of the country. Other forms of merger were also deemed inappropriate and instead it was stated that it would be more beneficial to liquidate the old companies and establish a new company. For this purpose, all sugar companies would be liquidated and the Uşak factory, which was not a company, would be separated from Sümerbank. The share prices of the new company would either be based on the assets of the old companies or, if necessary, paid in cash (1958, p.559).

### **The Position of Anadolu and Turhal Companies**

In the extraordinary general assembly meeting held on June 27, 1935, the Anadolu Company dissolved and liquidated the company and resolved that "the depreciation and all assets and liabilities written in our 1934 balance sheet will be transferred to the new company as they are". Accordingly, all assets, receivables and liabilities of the company would be transferred to the new company as a whole. In another article, the company stated that 4,255,999 liras would be paid 'in cash and in advance' in return for the transfer, taking into account the capital and reserves (Anadolu Şeker Fabrikaları, 1935). The Turhal Company also decided to dissolve and liquidate the company and join the newly established company at the extraordinary general assembly held on the same date. Accordingly, the total amount of the company's debts and depreciation was calculated as 10,389,022 liras, and the total amount of its facilities, buildings, land and fixtures as 13,642,026 liras. Thus, the difference between the sum of all assets and liabilities shown in the

balance sheet, amounting to 3,253,004 liras was determined as the transfer price to the new company. It is also stated in the general assembly report that half of the determined amount (1,626,502 liras) was deposited into an account opened at *İşbank* and the other half was deposited at *Ziraat Bank*. In the event that the sale price is equally distributed to the shareholders of the company, it is calculated that 108.43 liras will be allocated for each 100 liras of shares. It was stated that this price could be paid as of 25.11.1935 without applying Article 451 of the Commercial Code (Turhal Şeker Fabrikaları, 1934).

### The Position of Alpullu Company

The extraordinary general assembly of the Alpullu Company convened on July 8, 1935 under the chairmanship of *Hayri İpar* with the agenda of dissolution and liquidation of the company. As a result of the general assembly, it was decided to dissolve and liquidate the company and transfer it to the newly established Turkish Sugar Factories Inc. (TSFI) (*Türkiye Şeker Fabrikaları A.Ş.*) However, according to the Commercial Code of the period, the company appears to have gone bankrupt.

"The liquidators have decided to liquidate all receivables and payables, i.e. assets and liabilities, belonging to our company together with the depreciation written in our balance sheet dated December 31, 1934 for 2,321.699.97 liras to TSFI, which was formed by Türkiye İş, Ziraat and Sümer banks [...] Pursuant to Article 444 of the Commercial Code, it is hereby announced that all receivables are obliged to pay their liabilities as of 1.8.1935 [...] without notice." (Istanbul Sicilli Ticaret, 18 Temmuz, 1935, p.2).

It is noteworthy that Article 444 of the Commercial Code No. 865 of 1926 regulates the bankruptcy of companies. According to the article, "The *dayins* (creditors) of the company may apply to the court and request the dissolution of the company that has lost two-thirds of its capital." The nominal capital of the company appears to be 3 million liras, but according to Veldet (1958, p. 304), "1,875,000 liras of these three million capitals was collected until the liquidation of the company". For example, in 1933, the total sum of various debt items was approximately 9.5 million

liras, while the company's profit was 1,217,833 liras (Istanbul and Trakya, 1934). In 1934, when the company was declared bankrupt, its debts increased to approximately 12 million liras and its profit was 698,248 liras (UMH, 1941; Veldet, 1958, p.262). In the report of the merger year of TSFI, it was stated that all debts of Alpullu Company were collected in the liabilities of the new company (Türkiye Şeker Fabrikaları, 1936, p.8-9). Accordingly, most of the debts of the Alpullu Company, which amounted to 12 million, probably belonged to *İşbank*. During the transfer, *İşbank* converted these debts of Alpullu Company, which had declared its bankruptcy in its board of directors, into receivables and transferred them to the newly created sugar company. In other words, Alpullu Company was saved from bankruptcy and its debts were transformed into the receivables of *İşbank* in the liabilities of the new company. Thus, the bankruptcy of the Alpullu Company was covered by the assets of the new company established after the merger through a massive credit expansion mentioned by Veblen.

### The Position of Uşak Factory

The Uşak 'factory' held by *Sümerbank* was transferred to the newly established company, TSFI. However, it is understood that this transfer was most probably not direct. While *Sümerbank* held the Uşak factory as an enterprise, it was also a shareholder of the Anadolu Company. Therefore, there is a web of relations between Anadolu-Sümerbank-Uşak factory. In order to clarify the issue, it is first necessary to look at the decisions of *Sümerbank's* board of directors in 1935. In the bank's report, Article 11 of the founding law is recalled and it is stated that the existing factories should be transformed into a company. For this reason, "Our Uşak Sugar Factory and our participation in Eskişehir Sugar Factory were transferred to the Sugar Union that was formed on 6.7.1935" (Sümerbank, 1936, p.6). It was also stated that due to the liquidation of the Anadolu Company, in which the bank had participated at the time of its establishment, the bank's subsidiaries account decreased by 735,000 liras. In 1933, the bank disposed of the amount it had paid for its participation shares at their nominal value

and probably sold them to the Anadolu Company. On the other hand, the bank's 'factories account' was stated to have realized "a decrease of 4,428,838.13 liras due to the transfer of Uşak Sugar Factory to TSFI" (1936, p. 7). However, on the same page of the report, the words "from the transfer of our Uşak Sugar Factory to Anadolu Company" indicate that Uşak was transferred to Anadolu and probably from there to TSFI as capital, at a price equal to the decrease in *Sümerbank's* 'factories account'. Because the same figure (4,428,838.13) appears as capital in the trial balance of the newly established sugar company (*Türkiye Şeker Fabrikaları Mizanı*, 1935).

Law No. 3082, which was adopted in November 1936 and entered into force on January 2, 1937, is related to the financial consequences of the transfer. The law is an additional expenditure allocation of 3,500,000 liras to be added to *Sümerbank's* capital. In the preamble of the law, it is stated that the share of participation to be paid by *Sümerbank* to the sugar company established in partnership with three banks is 7.330.000 liras. Accordingly, it was stated that the bank had received 3,808,728 liras from the sale price of the Uşak sugar factory and the transfer of its shareholding in the Anadolu Company, leaving an unpaid share of 3,521,272 liras.

banks in order to be paid in three years by allocating the necessary amount to the budget each year starting from 1937 (RG, 1937, 3497). In conclusion, when we combine this information with *Sümerbank's* report, it is understood that the shares of Uşak factory and Anadolu Company held by the bank totaled 3,808,728 liras. When we subtract the Anadolu Company's share from this figure, the sale price of the Uşak factory is 3,073,728 liras. Despite the lack of available data, if the figure in the trial balance of the newly established company is correct, there was an increase in value equal to the difference (1,355,110). In a short period of time, there is an increase in value through merger (from *Sümerbank* to the Anadolu Company and then to the newly established sugar company), or more precisely, capitalized through merger, by merely changing hands through accounting. Despite the contradictory statements in *Sümerbank's* report, it is likely that this increase in value was added to the capital contributed by the Anadolu Company to the newly established company.

### Aggregated Display of Merger Data

As can be seen above, Anadolu, Turhal and Alpullu companies held a general assembly

Table 2: Transfer Values of the Companies in the Merger

			Data of Veldet (1958)	Data of the Boards of the Company
	Basis Value	Depreciation	Transfer Value	Transfer Value
Uşak	3.905.307	1.139.298	<b>2.766.009</b>	<b>2.766.009</b>
Alpullu	8.321.077	2.980.297	5.340.780	2.321.700
Anadolu	6.327.429	1.077.532	5.249.897	4.255.999
Turhal	7.872.413	297.103	7.575.310	3.253.004
Toplam	26.426.226	5.494.230	20.931.996	12.596.712

It was also stated that the draft law was drafted in order to obtain the balance of this shareholding from the treasury on the grounds that it was "materially" not possible for *Sümerbank* to pay the entire remaining shareholding since the interest and transaction tax to be accrued from the date of the request would be paid with the dividends to be obtained from the shares (ZC, 21 Aralık, 1936). With the published law, it was stated that the remaining balance would be provided by the treasury through loans and current accounts from

meeting on the date determined by them and decided to dissolve and liquidate and merged under the roof of TSFI Only 'Uşak Factory' was transferred first to Anadolu Company as an institution of *Sümerbank* and then to the new company, this time as a company. Table 2 compares the data from Veldet (1958) with the data obtained in this study. The data from Veldet (1958), which are based on the decisions taken by the companies in their own boards, do not match the data from Veldet (1958). All the companies in the table were transferred to the new company at a

price higher than the transfer values in their boards. The Uşak Factory, which was not a company, was included in the new company at a lower value. This discrepancy is also observed in the total company values.

As frequently emphasised in this study, there is no source to verify Veldet's data. However, the new company, with a capital of 22 million, is a real company, formalised by its articles of association. Therefore, Veldet's data can only be verified 'ex-post'. If the limited data available are correct, it is likely that after the general assembly of the companies, an increase in value took place, which is not recorded anywhere, and the company values were approximately equalised to the capital of the newly established company. As a result of this transaction, the company shares were redistributed among the 'new' shareholders, forming TSFI.

As it can be remembered, it was brought to the agenda during the period that Alpullu, in particular, allocated high depreciation in order to underestimate its profits, but despite this, the high profits raised a reaction. In the report of the General Inspection Board on TSFI for 1940, the building and machinery values in the last balance sheet taken as basis in the merger are mentioned.

*"The costs of the factories, the costs of the machinery installations, the amounts of their discoveries and the amounts actually paid could not be found. Therefore, they could not be compared, nor could the normalised facility costs corresponding to the production power of each of the four factories be compared"* (UMH, 1941, p.11).

On the other hand, the report, referring to the above-mentioned views on 'rationalisation' and 'savings' regarding the merger of companies, states that "it has not been possible to objectively estimate to what extent these useful wishes have been realised". Therefore, it is clearly stated by the institution auditing the companies that there is no evidence that the merger of the companies has led to 'rationalisation' as assumed.

### Formalizing the 'Informal' Merger

The companies were merged under the roof of TSFI and a law (No. 2785), ostensibly related to prices, was enacted around the same time. A

document found in *Cumhuriyet* (the newspaper) archival documents is quite important in terms of shedding light on the issue indirectly. According to the document dated 1936, during the appellate review of a grocer who was "presumed guilty of selling sugar for more than the price limit", referring to the reduction of sugar prices to 25 kuruş, the Chief Public Prosecutor's Office asked the Ministry of Justice for "a copy of the decree issued by the executive deputies committee on the determination of sugar prices". The response to this request was that there was no such decree. "Other than Law No. 2785 on the price of sugar, there is no record of a decree on the determination of prices" (CCA, 8 Temmuz, 1936).

Approximately one year before this ordinary incident, which was not very different from the frequent cases of black marketeering in the first half of the 1930s, the sugar companies were merged. On the same days after the merger, Bayar, sent a telegram to all governorships regarding sugar prices and the measures taken, which was also reflected in the newspapers of the day. According to the news, "The bill of law submitted to the Parliament in order to provide our people with cheap and abundant sugar has been approved. It will be possible to publish it in the official gazette on Tuesday, 18/6/1935. As of that date, the following points will be observed." (Akşam, 16 Haziran, 1935, p.1). According to the news article, the factory delivery price of granulated sugar, including all taxes and duties, would be 25 kuruş instead of 37 kuruş, and cube sugar would be sold at 28 kuruş instead of 40 kuruş. According to the news report, Bayar stated that retail prices would consist of a customary amount of current and 'normal profit' and that selling above these prices would be considered as *ihhtikar* (black marketeering). He also asked governors and mayors to fulfill their duties regarding the control of prices with sensitivity. Among the news reflected in various newspapers were that strict measures were taken regarding prices, the expected law was published in the official gazette on Monday, the retail prices of granulated and cube sugar were determined with a difference of approximately 1.5 kuruş as stated by Bayar, and even the Istanbul Municipality made advertisements regarding prices (Cumhuriyet, 16

Haziran 1935, p.1; Tan, 17 Haziran 1935, p.2; Son Posta, 19 Haziran 1935, p.11).

The law Bayar mentioned, which was also reflected in the newspapers after his telegram, was Law No. 2785, which was published in the official gazette on June 17, 1935 (RG, 1935, 3030). According to the law, the annual sugar production amounts were to be determined by the government, an excise tax of 4.10 kurus per kilogram of sugar was to be levied until the production amount reached 55 thousand tons, this tax was to be reduced by 1.4 kurus until sugar sales reached 200 thousand tons, a customs tax of 15 kurus was to be levied on sugar to be imported, the excise tax was to be increased as production increased, and if the dividend to be paid to the companies exceeded 9 percent, the allocation of this excess was to be determined by the government. However, the law does not specify the price of sugar in the slightest. Despite this, Bayar's telegram to the governors, as seen in the newspapers, asked the governors and mayors to show the necessary sensitivity and even take strict measures to ensure that the prices of granulated and cube sugar were adhered to. However, there was no law on price determination. In reality, an illusion was created through Law No. 2785 and prices were *de facto* lowered to the desired level. However, as seen above, when the law was published, the newspapers of the day and everyone involved in sugar shopping thought that this had been achieved through the law.

The most important thing to ask here is why a very formal form of relationship, such as a price, has been informally imposed on many parties who may be the addressees of the issue. This issue, i.e. the need for an informal price determination, is an important development that links the issue to the merger of companies. The price relationship is inherently a power relationship and a subject of bargaining. Since the formation of prices also requires a bargain, the merger of companies is also the product of an informal bargain with company shareholders. The reflection of this informal bargaining led to the informal determination of prices. The '*Sugar Rationalization Committee*' and the subsequent '*İnönü Project*' are the legitimization tools of this informal relationship that is not actually recorded in official records. Law

No. 2785, which does not actually relate to prices, is merely a legal framework for this power and bargaining relationship. The only official document related to this gigantic financial operation involving state institutions and thus banks is the aforementioned law, which consists of a total of eight articles unrelated to the merger. TSFI, with a gigantic financial size like 22 million liras, emerged as a result of this bargain. In many contemporary studies on sugar companies, both the 'committee report' and the '*İnönü Project*' are frequently used as a formal and official document accepted as data (Veldet, 1958, pp.559-575; Tekeli and İlkin, 2005; Taygun, 1993, p.122; Karayaman, 2012, pp.80-81; Mert, 2018, pp.206-212; Damlıdağ, 2018, p.154). The source cited by most of the studies is Turan Veldet's 1958 study. However, there is no official record of either the 'committee' or the 'project' and thus the merger operation derived from it. The aim here is not to find an official document or to emphasize that the merger was an unregistered transaction. On the contrary, it is to show that power relations and the capitalization and bargaining that derive from it operate across all formal and informal spheres. There are also studies claiming that the sugar company was 'nationalized' with the merger (Atıltepe et al., 1964, p.44; Tekeli and İlkin, 2009, p.205; Karayaman, 2012, p.87; Ayan, 2022, p.46). However, the 'only document available' for such a major 'nationalization' is the aforementioned Law No. 2785 on 'Sugar consumption and customs duties'. However, as stated, the law has nothing to do with sugar prices, nor with the merger process, nor with 'nationalization'.

In 1934, during the debates in the parliament on the increase in the excise tax on sugar, deputy *Hüsnü Kitapçı* stated that the tax increase was being paid by the public by raising the price of sugar, just as it had been two years ago, and that the sugar companies were free to set their prices since they were private institutions, and he told Bayar that these companies would increase their prices with the tax increase in the same way. "Since some of these factories were established with private capital, they are free, it is possible that they will sell more, this is probably their intention." Bayar's response to this criticism was, "I will make them do what I make state institutions do in terms of

accounts, I am capable of it" (ZC, 21 Nisan 1934, p.104). In reality, not only with the recent merger, but even with state-owned banks as shareholders, the functioning of the companies was constantly dependent on informal or de facto situations created in terms of their relationship with the state.

## Conclusion

In all studies, sugar companies are considered as industrial units. Therefore, it is from this perspective that the merger process is viewed and 'rationalization' is emphasized. However, companies are not industrial units, but only financial units with their balance sheets, assets and liabilities. Since companies themselves are financial units, the merger process itself is a financial operation. For companies operating in business, a merger or any other financial operation is just a matter of 'deal'. What is merged are not factories or machines, but intangible assets, which are pieces of property of the companies. So, there is nothing new added to the productive parts of the factories by the merger. The financial operations that develop in the form of mergers are relations of power and bargaining. In the case of the sugar companies, this bargaining process that made capitalization possible was done informally. The 'committee' and the 'project' that emerged from the merger have no legal record. The only official document pertaining to this informal, unregistered and in this sense de facto capitalization process is Law No. 2785. This law is neither related to the merger nor to the determination of sugar prices. Through negotiations with the shareholders of the companies, a huge financial operation was carried out and prices were brought down to the determined level through police measures without any legal basis. In this process in which state power was capitalized, the law in question functioned as a cover for this informal bargain, legitimizing the process through the illusion it created and through price decreases. With the merger, the assets of the company in the form of shares were increased through accounting, merged into the capital of the company under the roof of the new company and redistributed to the 'new' shareholders. From a different perspective, even though this was a credit expansion transaction and shares were distributed

equally among all parties, the cost of the transaction was largely undertaken by state-owned banks. The debts of the former companies, which were largely owed by İşbank, the main actor in the process, turned into receivables with the merger and became shares of the new merged company, which included the bank. The values capitalised by this process generated the TSFI.

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