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The Ottoman Empire:
Conquest, Organization and Economy

Collected Studies

VARIORUM REPRINTS
London 1978
The Ottoman Economic Mind and Aspects of the Ottoman Economy

I. THE RISE OF THE OTTOMAN COMMERCIAL CENTRES

It was a deliberate policy of the Ottoman government that was primarily responsible for the development of Bursa, Edirne (Adrianople) and Istanbul, successive Ottoman capitals between 1326 and 1402, 1402 and 1453 and from 1453 onwards, into major commercial and industrial centres. The measures which the Ottomans took to this end varied.

Following a very old tradition of Middle Eastern states, the Ottoman government must have believed that merchants and artisans were indispensable in creating and developing a new metropolis. It used every means to attract and settle them in the new capitals. By granting tax exemptions and immunities the imperial government encouraged them to come and settle or in a summary fashion forcibly exiled them to the capital.

After the conquest of Constantinople Mehmed II made every effort to convert the ruined city into a real metropolis, the seat of a universal empire, and in his policy of settlement he gave central importance to bringing into the city merchants and artisans. He was furious when in the fall of 1453 he learned that well-to-do people in Bursa did not comply with his order to come and settle in Istanbul. In 1475 after the conquest of Caffa a group of rich merchants were exiled and settled in Istanbul in a district where they numbered 267 families in 1477. With the same end in view he encouraged the Jews in Europe to migrate to his new capital and their number reached 1,647 families in 1477. When later under Bayezid II the Ottomans welcomed an exodus of Jews from Spain, Italy and Portugal who were settled in the main ports of the empire the idea was always that their commercial activities would bring prosperity to these ports. Jews made up an important part of the population of Istanbul in the sixteenth century (by 1535, 8,070 families) and turned Salonica into one of the most developed commercial and industrial centres of the empire. In 1554 the house of Nasi, the Ottoman Fuggers, came and settled in Istanbul under the special protection of Suleiman I. The method of forcible settlement was used by Selim I who drove to Istanbul about 1,500 merchants, artisans from Cairo and Tabriz.

In rebuilding the Ottoman cities and regenerating commerce and the economy, the construction of "sinarets, each a complex of religious and
commercial institutions, played a decisive part. Always established as a
pious foundation, an *imaret* consisted of religious and charitable institutions
such as mosque, *medrese*, *mekteb*, hospice and hospital on the one hand and
mercantile establishments such as *bedestan* (bazaaristan), caravanserais, *han*,
covered bazaars, market places on the other. The latter was designed to
provide for the expenses of the former. As in classical Islamic cities, the
bazaars and industries of an Ottoman city developed around the *bedestan*,
which was a building serving as a stronghold in the centre of the city to
store and guard the precious merchandise as well as the fortunes of
the ordinary citizens. It was also employed as the city hall for important trans-
actions and exchange. Many Ottoman towns owed their development into
commercial centres to their having a *bedestan*. In the seventeenth century
Evliya Çelebi divided the Ottoman cities into those with a *bedestan* and
those without it. Similar complexes were also built on the important trade
routes and later on gave rise to thriving cities.

Caravanserais, *han* and *zaviye* in the cities or on the routes completed
the system, which was designed to facilitate the caravan trade and make
the trade routes converge on the capital city. The interesting point was that the
state took a keen interest in promoting it. In 1459 Mehmed the Conqueror
convoiced the high dignitaries to his presence and required them to build
*imaret*-cities wherever they liked in Istanbul. Thus the main districts of
Turkish Istanbul came into being with their monumental religious institu-
tions as well as bazaars and *hans*. On the other hand, the *bedestan* and
*imaret* which Minnet-oglu Mehmed Boğ built at the beginning of the
fifteenth century at Tatar-Pazarcağı became the nucleus of the thriving city
with the same name in Bulgaria. The us-beyzis like Minnet-oglu were
responsible for the building of several provincial towns. The state encour-
aged such foundations, especially by granting property rights on the lands which
were to be made waqf for them. It should be noted that in most cases such
land was *bedestan*, waste or abandoned land, and the founder of the *imaret*
undertook to bring it under cultivation. The usual procedure was as follows:
the founder came to the Porte with a project, saying that if such and such
lands with property rights were granted, he would revile them by settling
there people who were sometimes the founder’s slaves and by building
dams and digging canals; and the revenues of the land were to be assigned
as waqf for the upkeep of the *imaret*. Thus such projects gave rise to com-
mercial centres and to the creation of new farm lands and villages in the
countryside. Incidentally, the letters of Rashid al-Din give examples of
such projects in Iran under the Ilkhânids. The idea goes back apparently
to ancient Iran as reflected in *Siyāsatiānāmēs* and *Tabari*’s account of the
Sassanian kings. The state’s main concern was to extend the sources of
revenue for the treasury.

*Zaviye* of dervishes, with the obligation of sheltering travellers in the
cities and on the routes, were established on the same principles and must
be considered as part of the same system. In early Ottoman history they
played a pioneering role in Turkish settlement in the newly-conquered
lands, and many Turkish villages in western Anatolia and the Balkans came
into being around *zaviyes*. On the original *waqf* lands granted by the Sultan,
the dervishes themselves or their slaves provided labour to bring them into
cultivation.

When in the late fifteenth and sixteenth centuries most of the *waqfs* of
*zaviyes* lost their original function, they were returned to the state’s
ownership. These reforms caused widespread social and political reactions
in the empire. But it is interesting to add that when Suleiman I wanted to
bring back prosperity to the major trade route from Iran to Erzurum, it was
found necessary to restore the *zaviyes* on this route.

To come back to the rise of commercial centres in the Ottoman empire,
it can safely be said that the Ottomans tried to bring about a route system
around their capital cities, and that many of their conquests were motivated
by the desire to take control over certain trade routes.

II. THE OTTOMANS AND THE TRADE ROUTES

With the fall of the Mongol Ilkhanid empire in Iran in the early fourteenth
century, and the rise of the Ottomans in western Anatolia, the political, and
subsequently, the commercial centre of gravity gradually shifted to western
Anatolia. Concomitantly there was a change in the pattern of commercial
routes. Bursa, which until the end of the fourteenth century was both the
political and commercial centre of the Ottoman domains that stretched
from the Euphrates to the Danube, became the most important trading

city of Anatolia. It was the hub of the Anatolian commercial network. The
former emporia of western Anatolia, such as Palatia, Altolucuo (Ephesus)
and Smyrna, had already fallen under Ottoman control in 1391, and were
now linked to Bursa. Caravans arriving from Iran now reached these
seaports by way of Bursa. Moreover, by extending his domains eastwards
as far as Erzincan, through Amasya and Tokat, Bayezid I (1389-1402) took
control of this caravan route. Iranian silk caravans began to penetrate
overland as far as Bursa. In the fifteenth century the cities of Amasya and
Tokat, located on this route, became the most important political, economic,
and cultural centres in Anatolia after Bursa.

The Ottomans did not neglect the trade routes in the southerly direction.
In 1391 Bayezid I incorporated into his domains Antalya and Alanya, the
principal ports of entry in southern Anatolia for Indian and Arabian goods.
The main overland route followed by this trade was the ancient Aleppo-
Adana-Konya-Istanbul road that cut diagonally across Anatolia. Complete
Ottoman hegemony over this route that connected Bursa with the southern
countries was established in 1468 when the Ottomans put an end to the Karamanids.

Muslim traders could now come to Bursa from Iran and Arabia in complete security. In addition, European traders from Venice, Genoa and Florence operating from Istanbul and Galata, which had been the most important centres of the Levant trade, now found Bursa the closest market in which they could purchase eastern goods and sell European woollens. This situation must have been apparent quite early, for Ibn Battūta mentioned, around 1330, that Orhan was considered the richest of the Turkish sultans in Anatolia, and as early as 1352 the Genoese had concluded a commercial agreement with the Ottomans. At the end of the fourteenth century Schildtberger compared Bursa's silk industry and trade to that of Damascus and Caffa. He noted that Iranian silk was sent from Bursa to Venice, and to Lucca, which was then the centre of the European silk industry.

Bursa's development stemmed primarily from the Iranian silk trade. The silk industry in Europe experienced a great expansion in the fifteenth century, and Bursa became the international market place for the raw material upon which that industry depended, the esteemed silk of Astarābād ('Strava' in Italian) and Gīān in northern Iran. J. Marigni, the representative in Bursa of the Medici and other Florentine houses, noted in 1501 that every year numerous silk caravans arrived in Bursa from Iran. In his letters is reflected the anxiety with which the merchants awaited the arrival of those caravans, and the eagerness with which the goods were bought in sharp competition. The rewards were handsome, for in Italy each fardello (about 150 kgr.) fetched seventy to eighty ducats profit. About a thousand silk looms in Bursa consumed five fardelli of silk a day. The price of silk rose constantly, fifty abas in 1467, seventy in 1488, and eighty-two in 1494. An average caravan brought about two hundred fardelli of silk.

The table below gives the value of customs receipts from silk in Bursa for various years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gold Ducats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1487</td>
<td>120,000</td>
</tr>
<tr>
<td>1508</td>
<td>100,000</td>
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<tr>
<td>1512</td>
<td>130,000</td>
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<tr>
<td>1521</td>
<td>40,000</td>
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<tr>
<td>1523</td>
<td>90,000</td>
</tr>
<tr>
<td>1527</td>
<td>70,000</td>
</tr>
</tbody>
</table>

The sudden decline after 1512 is a result of the wars with Iran. Although an upward trend is discernible after the peace of 1555, the level is far below that of the fifteenth century.

Even after Istanbul became the capital of the empire, Bursa continued to flourish as a principal trade centre of the empire for another century. Her rival in the silk trade, Aleppo, had been of importance for a long time. The silk caravans from Iran would arrive at Aleppo by way of Erzurum, following the Euphrates valley, or more often along the Tabriz--Van--Bitlis--Diyarbekir--Birecik route. In 1516-17 the Ottomans assumed control of these routes and of the Aleppo market as well. As a result, all outlets for Iranian silk open to Europeans were now in Ottoman hands. Not content with control of the outlets, the Ottomans attempted in the sixteenth century to place the north Iranian centres of silk production, such as Shirvān and Gīān, directly under their own domination.

Iranian silk, however, was not the only item traded in Bursa. Muscovite and Chinese porcelain assumed an important place among the merchandise coming to Bursa from China and Central Asia. Iranian merchants sought to take back with them mainly European woollens, precious brocades and velvets, and especially gold and silver specie, since it was scarcer and had a higher value in Iran.

A description of the diagonal land route from Damascus to Bursa in 1432 has been left to us by the noted traveller Bertrand de la Broqui ère. He had joined in Damascus a three thousand camel caravan of pilgrims and merchants returning from Mecca. The Turkish group in the caravan included many notable men and was placed by appointment of the sultan under a merchant of Bursa. De la Broqui è re reached Bursa after a journey of some fifty days. There he found Florentine as well as Genoese merchants from Pera who were interested in buying spices.

Goods in transit on this caravan route tended most often to be merchandise light in weight and expensive in price, such as spices, dyestuffs (indigo and gum lac), drugs, and textiles. This caravan trade was totally in the hands of Muslim merchants. Among them was Abū Bakr, a substantial merchant of Aleppo, who in 1500 had brought to Bursa a shipment of spices worth 4,000 gold ducats, and Mahmūd Gāvan of India who in the 1470s annually sent his commercial agents to Bursa with Indian merchandise. In 1481 some of his agents even passed over the Balkans to trade textiles and other goods.

About 1470 Benedetto Dei, a Florentine, was able to claim that his fellow citizens could provide in Bursa not only cotton and wax, but also spices. From the reports of Marigni we know that spices were exported to Italy from Bursa, however small the quantity. In 1501 he wrote to his associate in Florence that he had consigned three sacks of pepper to him, and if he wanted, he could send more. As it turned out, however, the difference in price between Bursa and Florence was not large enough compared to the profits obtainable in the silk trade. Marigni wrote in 1503 that the price of pepper might go up to twenty-seven gold ducats a kantar
English and Dutch intensified their efforts to establish direct relations with India and Persia.

The wars with Persia in the sixteenth century seriously affected the silk trade and had profound repercussions on the economies and finances of the two countries. The first stage began with Selim I’s imposition, as a weapon of war, of a commercial blockade. He intended to prevent the Persians from acquiring war materials, silver and iron, and, by forbidding the trade in silk, to reduce the Shah’s income from dyes, one of his main sources of revenue. But the blockade had no effect, since most merchants began using the routes through Aleppo and Iskenderun. Thereupon Selim I resorted to more violent measures. Arab, Persian and Turkish merchants with stocks of Persian goods had their goods confiscated. The silks and cloths of all Persians at Bursa were confiscated and listed, and the merchants themselves were transported to Rumeli and Istanbul in 1545. The import and sale of Persian silk was forbidden. Anyone proved to have sold silk was fined its value. When Suleiman I came to the throne he released the merchants and restored their goods or paid them compensation. Nevertheless the ban on the import and trade in silk by Persian merchants was maintained for a time. This blockade had important effects: it increased state control of the sale and distribution of silk; the scarcity and high price of silk obliged many merchants and weavers to go out of business; instead of Persian and Turkish merchants, Armenians began to gain control of the trade. In 1540 and finally the government encouraged the production of silk within the Ottoman empire. When the silk routes were reopened under Suleiman, the industry again became dependent on Persian silk, and there was a new expansion in the trade and manufacture of silk. Yet in this reign too, during the wars with Persia, the Ottoman government imposed restrictions on the movement of gold and silver currency into Persia: the consequent shortage of silk harmed the Bursa industry and led to a fall in the revenue derived from it. In the ensuing period of peace the silk trade flourished again, but in the long period of war from 1578 to 1639 silk became an important political weapon for each side. As early as 1579 the Ottoman revenue from the trade had been halved, and the Ottomans again imposed a strict control on the export of gold and silver. In 1586 the shortage of silk had left three-quarters of the looms of Bursa idle, and the quality of the fabrics produced had begun to decline. The peace of 1590 extended Ottoman sovereignty over the silk-producing regions of Ganja and Shirvan north of the river Kura. In the following year the ruler of Gilan, Ahmad, attempted to exchange Persian for Ottoman protection. The restrictions on the export of gold and silver caused an acute shortage of currency in Persia. Before Shah Abbas launched his counter-attack in 1603, he sought means (no doubt at the suggestion of the Sherley brothers) to export Persian silk direct to Europe, via the Indian Ocean, whereby the English would escape the need to pay customs in the

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Ottoman empire and the Shah would deprive his enemy of a rich source of revenue. In 1610 he sent an embassy to Lisbon and exported 200 loads of silk by sea, hoping to prove that this route was cheaper. When the attempt to make an agreement with Spain failed, the Shah turned to England, and in 1617 Sir Thomas Roe opened negotiations with the Shah. Of the 3-4 million gold pieces which Persian silk cost annually, England undertook to pay two-thirds in goods and one-third in coin. In order to maintain control of it, the Shah made the silk trade a state monopoly and forbade the export of silk to Turkey. The Ottomans and Venice—the two states most affected—watched these developments with anxiety. In 1619 and 1622 consignments of silk were indeed sent to England by sea. After the Ottoman-Persian peace of 1618, Persian silk was again exported to Aleppo, Bursa and Foça. Shah 'Abbās's policy was not followed by his successor, who abolished the state monopoly of silk, and the use of the Indian Ocean trade did not develop as was expected mainly because England was reluctant to provide the gold and silver currency required for it. Nevertheless in 1633 the Venetians were concerned at learning that English merchants were buying large quantities of silk at Bandar 'Abbās. In 1664 the French too were attempting to divert the Persian silk-trade through the Persian Gulf and Surat.

The Ottoman government often used the trade privileges which it granted as a political asset. The grain of western Anatolia, Thrace, Macedonia and Thessaly was vitally important for feeding Venice and the cities of Northern Italy. In his excellent study M. Silberschmidt demonstrated how Bayezid I (1389-1421) in his relations with Venice could influence Venetian diplomacy by regulating grain export. Showing himself generous by letting Venice export grain from his dominions, Mehmed II (1451-81) kept Venice unsuspecting about his intentions before the siege of Constantinople.

It can be said that the capitulations were often granted on political considerations rather than economic. It was true that the Ottomans could not do without European cloths, an indispensable luxury for the higher classes, English tin and steel, and especially bullion on which the finances of the empire relied. So I think there is some exaggeration in saying that the Ottoman empire was economically self-sufficient. But it was equally true that from the outset, when the Ottomans favoured the Genoese against the Venetians by granting the capitulations of 1352, down to those granted to England in 1531 and to Holland in 1612, the Ottomans believed that they were favouring and supporting the friendly nations against the hostile ones by giving them trade privileges. I think one should first consider changes in Ottoman political attitudes to understand the fluctuations in the trade of a particular western nation in the Levant. Also it must be added that the extension of the capitulations to the western nations was very beneficial for

the Ottoman economy in the sixteenth century, for such a policy kept the Levant markets alive and enabled the Ottoman Empire to compete successfully with other routes for the trade in spices and silk. In the early seventeenth century it was argued in England that the Levant Company was more important than the East Indies Company. The English capitulations were not just at the time when England renewed its attempts to set up a trade route through Russia, the Caucasus and Iran to Hormuz. The fact that the Ottoman market consumed a large amount of cloth made a great difference for the English who were trying to pay for oriental goods with as little bullion as possible. It was along the same line that Na'im, the Ottoman chronicler of the early eighteenth century, wrote: 'People in this country must abstain from the use of luxury goods of the countries hostile to the Ottoman empire and thus keep currency and goods from flowing out. They must use as much as possible the products of native industries... One may argue that such a policy might result in a decrease in the customs revenues, but one must not forget that if foreign merchants spend the money they earn by selling their goods here to buy what they need of Ottoman products, the money remains within the country. Moreover duties are paid more than once on these transactions. The European merchants import woolen cloths and buy for export wool, mohair, alpaca, sables, and other goods, and pay for them at Smyrna, Pécs, Sásad and Alexandria with shiploads of silver and gold. This money is spread over the country, especially in Ankara, Sásad, Triápolis and the Lebanon. But the Muscovites sell us expensive fur but purchase nothing in the Ottoman dominions and keep the money for themselves. Also we spend so much for Indian goods but Indians purchase nothing here. As a matter of fact they have nothing to buy here. Consequently incalculable fortunes are amassed in India. The same can be said about the Yemen from which we import coffee.' It is interesting to note that Na'im avoided mentioning the goods exported to Europe wheat, cotton, textiles and hides the export of which in the traditional thinking of the Ottomans was not desirable as they were necessities for the internal market.

In peace as in war the Ottoman government forbade the export of certain goods. In the list were usually included cotton, wax, leather, hides, grain. The idea was to protect the domestic market and prevent scarcity and higher prices.

III. THE OTTOMAN GOVERNMENT AND THE GUILDS

The attitude of the Ottoman government towards the guilds and domestic commerce is of particular interest in understanding the Ottoman economic mind.

The Ottoman guild system (called esnaf, hürfet or lenea) was actually a
continuation of the ahbār organization with this difference that the independent and powerful position of the guilds in the thirteenth and fourteenth centuries weakened under the centralist system of government of the Ottomans.

Let us first have a glance at the internal organization of an Ottoman hirfet: the number of ustās (from ustād, master-craftsman) was limited. They elected from among themselves a council of control known as the Six, Altalar, who were, in descending order, the shaykh, spiritual head, the kâhiba (from kâhib, the judge of the law) and two ehl-i hibr, experts. The local kadi would confirm the election and register the result in his official sicil. The Sultan’s diploma was to be obtained from the kâhiba, actual leader and representative of the hirfet as was the ahbār in earlier times. The principal duties of this council were to ensure that regulations concerning the quality and prices of manufactured goods were enforced, to carry out the examinations for promotion from apprentice (şayid) to journeyman (kalfı, from khalif) and from journeyman to master, to issue licences (icioze), to investigate and settle disputes and malpractices in the guild, to represent the guild in dealings with the government, and most important of all to prevent competition and underhand practices in the employment of workmen and in the buying of stocks. In carrying out these duties the kâhiba, usually acting as the principal officer, the yiğit-bas, and his assistant the iği-bas, would investigate complaints and make a report to the ehl-i hibr, on the basis of which they made the final decision. The guild cooperated closely with the government, and if there was any resistance to the decision of ‘the Six’, the latter could call upon the local state officers to enforce it. The regulations of the guild were confirmed by the Sultan, so becoming an ihtisab law, and as such, their application became the responsibility of the kadi. The work-peoples were divided into three main groups: kuls (slaves), şagrıs (apprentices) and eceirs (wage-earners). The masters sold their products at specified shops in the market and were not permitted to sell their goods elsewhere. When one branch of a hirfet expanded, its members could easily form themselves into a new hirfet but the Sultan’s diploma for recognition was required.

The government’s control of a guild was carried on through various agents such as the local kadi, the muhitesib and various umis, agents of the Sultan. In Istanbul in certain professions the kâhiba had to obtain a high official’s certificate to get the Sultan’s diploma. For example, the chief architect at the Porte was authorized to give such certificates to kâhibs elected by the guild of architects. The government usually respected the decision of the guild. There are indeed many instances in which the guilds imposed their own choice instead of a kâhiba favoured by the local authority.

The disputes in a guild or between guilds or malpractices and deviations from the rules often made the government interfere in the affairs of the guilds. Almost without exception the Ottoman government adopted the views of the guilds about new trends against the rules. In the thriving cities of Bursa and Istanbul masters working outside the guilds and cheaper production to meet growing demand for goods at popular prices appeared to be the two principal threats against the guild system. Usually the guild denounced them at the Porte as working without licence and producing defective goods in violation of the regulations. The government interfered in favour of the guild and tried to restore the old regulations apparently without great success. A firman reduced the number of looms weaving brocade from 316 to 100 in 1564 but a new inspection in 1577 found 268 looms still working. Measures were taken to prevent hoarding of raw material. A special market or hall was assigned for each major item such as wheat, butter, honey, cloth, silk, leather and it was brought, weighed, taxed and then distributed to the representatives of the hirfets there. For the necessities such as wheat and meat for the Istanbul market the government established a close supervision from the producer in the provinces down to the retailers in Istanbul in order to provide a regular and sufficient supply of these goods and eliminate speculators. For purchase on a large scale in the provinces the government appointed rich persons, sometimes without their consent. The strict regulation and close control of domestic trade and industry was dictated, as seen above, by the government’s major concern to meet the needs of the population at normal prices. Under the Islamic hiba rules the community was to be protected from unjust practices in the market. Especially in a city like Istanbul where a shortage or abnormally high prices of basic goods might rouse the military and the common people against the government all this was of vital importance with far-reaching political implications. We have also seen above how concern over scarcity and high prices made the government forbid the export of certain goods and thus affected foreign trade. In general the export of goods was not something desirable. When not forbidden, goods for export were subject to customs duties as high as those for import.

Conclusion

The Ottoman economic mind was closely related to the basic concept of state and society in the Middle East. It professed that the ultimate goal of a state was consolidation and extension of the ruler’s power and the only way to reach it was to get rich sources of revenues. This in turn depended on the conditions making the productive classes prosperous. So the essential function of the state was to keep in force these conditions.

The society is, in this philosophy of state, divided into the ruling class who are not engaged in production and consequently pay no taxes and the subjects who are engaged in production and pay taxes. The latter is subdivided into city-dwellers engaged in commerce and industry and peasants
engaged in agriculture. In the Middle Eastern state the belief prevailed
that the peace and prosperity of the state depended on keeping the mem-
bers of each class in their own place. It was such a concept of state
and society that was prevalent in the minds of the kuttâb, actual adminis-
trators in a Middle Eastern state formulating all the measures to be taken. It called
for an economy and economic organization the ultimate aim of which was
to increase the state revenues as much as possible without impairing
the prosperity of the subjects and to keep the traditional organization of the
society from alteration.

By developing commercial centres and routes, encouraging people to
extend the area of cultivated land in the country and international trade
through its dominions, the state performed basic economic functions in the
empire. But in all this the financial and political interests of the state were
always prevalent and the Ottoman administrator could never have realized
within the political and social system in which he lived the principles of a
capitalistic economy of the Modern Age; while Europe, equipped with the
knowledge and organization of such a system, came to challenge the Middle
Eastern empire of the Ottomans.

BURSA AND THE COMMERCE
OF THE LEVANT

I. Turkey's trade with Arabia and India, 1480-1500.

It is not an exaggeration to say that European historians of the
Levant trade viewed it essentially from Venice or Genoa. They drew
their evidence mainly from documents preserved in the archives of
these cities. This evidence was bound to be often misleading, for the
Venetians and Genoese showed little interest in internal developments
in the Levant and viewed the measures taken by the Ottoman rulers
only in terms of their effect upon the Levant trade. Thus it is not
astonishing to find even in such a great scholar as W. Heyd the general
judgements of decline and destruction of the Levant trade as a result
of the Ottoman expansion 1). Just as the assertions of decline for a
whole period and region in European economy in later middle-ages
have been subjected to revision and often modified 2) under the light
of the recent investigations, which have indicated that there were ac-
ually shifts of activities from one section to another rather than a
general decline, so our own inquiries in the native sources concerning
the commerce of the Levant are tending now to alter some of the widely
held views since W. Heyd wrote his authoritative work.

There are indeed local sources for the history of the Levant trade.
The Turkish archives contain some important collections concerning
the conditions of the Levant trade for the last decades of the 15th

1) Histoire du commerce du Levant au Moyen-Ãge, transl. F. Raynaud, IIe rÃ©impression,
2) See Relazioni, X. International Congress of Historical Sciences, vol. vi, Rome
1935, pp. 805-917.
OTTOMAN INTERVENTIONISM
IN ECONOMIC AND MONETARY AFFAIRS

In Honor of Professor Halil Sahillioğlu

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Professor Halil Sahillioğlu devoted a significant part of his distinguished research and writing career to Ottoman monetary history (1). My own work on the same subject owes a good deal to his path breaking work (2). In this essay, I examine the approach of the Ottoman central government to economic and monetary affairs. I question the prevailing interpretation in Ottoman historiography which assumes that government interventionism in economic and monetary affairs was the rule and, by implication, that these efforts were generally successful.

Ottoman Economic Priorities and Policies:

To understand the nature of Ottoman economic policies or practices, it is essential to examine the nature of the Ottoman state and its relations with different social groups. Until late in the fifteenth century, there existed considerable amount of tension in Ottoman society between the Turkish landed aristocracy of the provinces, who were deeply involved in the territorial conquests, and a bureaucracy at the center made up mostly of converted slaves (devshirme), with the balance of power often shifting between the two. The successful centralization drive of Mehmed II in the second half of the fifteenth century moved the pendulum again, this time decisively. The landed aristocracy was defeated, state ownership was established over privately held lands, and power concentrated in the hands of the central bureaucracy. After this shift, the policies of the government in Istanbul began to reflect much more strongly the priorities of this bureaucracy. The influence of various social groups, not only of landowners but also of merchants and moneychangers, over the policies of the central government remained limited.

The central bureaucracy tried, above all, to create and reproduce a traditional order with the bureaucracy at the top. The provisioning of the urban areas, long distance trade and imports were all necessary for the stability of that social order. The state tolerated and even encouraged the activities of merchants, domestic manufacturers more or less independent of the guilds and moneychangers as long as they helped reproduce that traditional order. Despite the general trend towards decentralization of the empire during the seventeenth and eighteenth centuries, merchants and

domestic producers who were the leading proponents and actual developers of mercantilist policies in Europe, never became powerful enough to exert sufficient pressure on the Ottoman government to change or even modify these traditional policies. Only in the provinces, locally powerful groups were able to exert increasing degrees of influence over the provincial administrators.

In a recent essay, Mehmet Genç examines the economic functions and priorities of the central bureaucracy based on years of research on the archives of the central government (3). After cautioning that these never appeared in purely economic form but always together with political, religious, military, administrative or fiscal concerns and pronouncements, he argues that it is, nonetheless, possible to reduce the Ottoman priorities in economic matters to three basic principles. The first priority was the provisioning of the urban economy including the army, the palace and the state officials. The government wanted to assure a steady supply of goods for the urban economy and especially for the capital city. The bureaucracy was very much aware of the critical role played by merchants in this respect. With the territorial expansion of the empire and the incorporation of Syria and Egypt during the sixteenth century, long distance trade and control of the intercontinental trade routes became increasingly important and even critical for these needs.

Foreign merchants were especially welcome because they brought goods not available in Ottoman lands. Ottoman encouragement of European merchants and the granting of various privileges, concessions and capitulations as early as the sixteenth century can be best understood in this context. Occasionally, however, foreign merchants also contributed to domestic shortages by exporting scarce goods and the Ottomans had to impose temporary prohibitions on exports.

The emphasis on provisioning necessitated an important distinction between imports and exports. Imports were encouraged as they added to the availability of goods in the urban markets. In contrast, exports were tolerated only after the requirements of the domestic economy were met. As soon as the possibility of shortages emerged, however, the government did not hesitate to prohibit the exportation of basic necessities, especially foodstuffs and raw materials.

Genç emphasizes that a second priority of the center was fiscal revenue. The government intervened frequently to collect taxes from a broad range of economic activities and came to recognize, in the process, that at least in the longer term, economic prosperity was essential for the fiscal strength of the state. In the shorter term and especially during periods of crises, however, it did not hesitate to increase tax collections at the expense of producers.

A third priority, which was closely tied to the other two, was the preservation of the traditional order. For the Ottomans, there existed an ideal social order and balances between social groups such as the peasantry, guilds and the merchants. The sultan and the bureaucracy were placed at

(3) Mehmet Genç, "Osmanlı İktisadi Dünyası Görüşünün İkileleri", İstanbul Üniversitesi Edebiyat Fakültesi Sosyoloji Dergisi, 3. Dizi, No. 1, 1989; for a similar argument see Halil Inalcı, "The Ottoman State: Economy and Society" in Halil Inalcı and Donald Quataert, (eds.), An Economic and Social History of the Ottoman Empire, 1300-1914 Cambridge University Press, pp. 44-54.
the top of this social order. There was some flexibility in this view. The ideal of what constituted this traditional order and the social balances may have changed over time with changes in the economy and society. The government took care to preserve as much as possible the prevailing order and the social balances including the structure of employment and production. From this perspective, for example, rapid accumulation of capital by merchants, guild members or any other group was not considered favorably since it would lead to the rapid disintegration of the existing order.

As a result, the governments' attitude towards merchants was profoundly ambiguous. On one hand, merchants, large and small, were considered indispensable for the functioning of the urban economy. Yet, at the same time, their profiteering often led to shortages of basic goods bringing pressure on the guild system and, more generally, on the urban economy. Thus the central administration often considered, as its main task, the control of the merchants, not their protection. At the same time, however, the control of merchants was much more difficult than the control of guilds. While the guilds were fixed in location, the merchants were mobile. Needless to say, the official attitude towards financiers and moneychangers (sarraf) was similarly ambiguous.

In pursuit of these priorities, Genç argues, the Ottoman government did not hesitate to intervene in local and long distance trade to regulate the markets and ensure the availability of goods for the military, palace and, more generally, the urban economy. In comparison to both Islamic law and the general practice in medieval Islamic states, the Ottomans thus appear more interventionist in their approach. In economic and fiscal affairs as well as in many administrative practices, they often issued their own state laws (kanun) even if those came into conflict with the shari‘at. The practices they used such as the enforcement of regulations (hisba) in urban markets and price ceilings (marh) had their origins in Islamic tradition but the Ottomans relied more frequently on them. In addition, in the provisioning of the army and the urban economy, deliveries at fixed prices were required from merchants for some of the more important goods.

Based on extensive research on documents prepared by the bureaucracy, Genç's scheme is very useful in analyzing the priorities and intentions of the Ottoman bureaucracy. As Genç himself emphasizes, however, priorities and intentions need to be distinguished from the actual policies. Whether the governments succeeded in bringing about the desired outcomes through their interventions depended on their capabilities. It has already been argued that there existed serious limitations on the administrative resources, organization and capacity of the central governments. States in the late medieval and early modern periods did not have the capacity to intervene in markets comprehensively and effectively. The mixed success of government actions inevitably led the Ottoman authorities to recognize the limitations of their power. As a result, Ottoman governments moved away from a position of comprehensive interventionism as practiced during the reign of Mehmed II in the second half of the fifteenth century (1444 and 1451-1481) towards more selective interventionism in the sixteenth, seventeenth and eighteenth centuries.

Unfortunately, this evolution and the more selective nature of government interventionism after the fifteenth century has not been
recognized by historians (4). In addition to the biases arising from state-centered perspectives shared by many, there are a number of practical reasons why archival evidence has misled historians to exaggerate both the frequency and the extent of state intervention in the economy. One basic source of error has been the unrepresentative nature of the available material. Each government intervention is typically recorded by a document in the form of an order to the local judge (kadi) or some other authority. In contrast, there are no records for the countless numbers of occasions when the government let the markets function on their own. Faced with this one sided evidence, historians have concluded that state intervention and regulation was a permanent fixture of most markets at most locations across the empire.

The case of the official price ceiling (narh) lists provides an excellent example in this respect. Historians who have run into individual documents with narh lists or those who obtained a few of these from the archives of the Islamic court records, have assumed that these lists were issued regularly and that narh was a permanent fixture of urban economic life. In fact, my recent searches through all of the more than one thousand registers of three of Istanbul's courts, those of the Old City, Galata and Üskudar from the fifteenth through the mid-nineteenth century indicate that narh lists were prepared and issued primarily during extraordinary periods of instability and distress in the commodity and or money markets when prices, especially food prices, tended to show sharp fluctuations or upward movements. Wars, crop failures and / other difficulties in provisioning the city and monetary instabilities such as debasements or reforms of coinage were examples of these extraordinary periods. In the absence of such problems, however, there were long intervals, sometimes lasting for decades, when the local administrators did not issue narh lists (5).

Another bias is related to the fact that a large part of the available documents provide evidence of state intervention directly related to the economy of the capital city (6). This evidence has led many historians to assume that the same pattern applied to the rest of the empire. In fact, Istanbul was unique both in terms of size and political importance. With its population approaching half a million, it was the largest city in Europe and West Asia during the sixteenth century. As was the case with monster cities elsewhere, government economic policy often revolved around it. In contrast, the central government was much less concerned about the provisioning of other urban centers. The state organization was not as strong there and the local authorities, who were appointed by the center, were more willing to cooperate with the locally powerful groups, the guild hierarchy, merchants, tax collectors and moneychangers.

In short, it is now time to make a more realistic assessment of the nature of Ottoman state interventionism in the economy. When the biases

(4) One notable exception is Ahmed Güner Sayar who points to a change in Ottoman attitudes towards narh after 1658. Sayar, Osmanlı İktisat Düşünçesinin Çağdaşlaşması, Istanbul, 1986, pp. 73-74.
(5) This search was undertaken as part of ongoing work on the history of prices and wages in Istanbul.
of archival evidence and the limitations of the power of states are taken into account, Ottoman policy towards trade and the markets is best characterized not as permanent and comprehensive interventionism, but as selective interventionism. In the later periods, interventions were used primarily for the provisioning of selected goods for the capital city and the army and during extraordinary periods when shortages reached crisis conditions.

The limitations of the central government was even more apparent in the case of money markets. In comparison to goods markets and long distance trade, it was more difficult for governments to control physical supplies of specie or coinage and regulate prices, that is, exchange rates and interest rates. The Ottoman administrators were well aware that participants in the money markets, merchants, moneychangers and financiers were able to evade state rules and regulations more easily than those in the commodity markets (7). Observing the mixed success of government actions, they learned that interventionism in money markets did not always produce the desired results. For this reason, government interventions in money markets remained selective and occurred mostly during extraordinary periods such as extreme monetary turbulence or wars. In fact, Ottoman monetary practices during this period exhibited a remarkable degree of flexibility and pragmatism.

One of the most telling examples of Ottoman flexibility concerned the determination of exchange rates between different kinds of coinage. In an environment of frequently recurring shortages of specie, the Ottoman administrators knew that it was essential to attract into the Ottoman lands and maintain in circulation as much coinage and bullion as possible. Their monetary practices were guided more by this concern than any other. They were also aware that the ratio between gold and silver as well as the value of different types of coins was subject to fluctuations. Under these conditions, a policy of fixed exchange rates between different coins would have driven the good or undervalued coins out of circulation through the workings of Gresham's Law. Instead, the authorities typically allowed local markets to determine the exchange rates, thereby reducing if not eliminating the distinction between good and bad coins and encouraging the circulation of all coins. Local court records show that the kадис relied on these market rates to settle disputes between individuals. In addition, the government announced the official rates at which different coins, gold and silver, would be accepted as payment. Usually, these rates, expressed in Ottoman units, did not diverge greatly from the prevailing market rates for the same coins. Large differences between official and market rates tended to be short in duration and took place mostly under crisis conditions such as wars or severe financial difficulties (8).


The Ottoman attitude towards foreign coinage provides another example of Ottoman flexibility. From the earliest days, Ottoman authorities encouraged the circulation of foreign coinage. The government and courts accepted foreign coinage as payment. Official lists indicating the exchange rates between different types of coinage always included the European pieces. The primary reason for embracing foreign coinage, of course, was to add to the amount of specie in circulation. The Ottoman government exempted precious metals and foreign currency from import dues. In capitulations or privileges given to merchants of certain European states, the Ottoman government exempted them from all customs duties for the foreign coinage they brought. In addition, customs and mints officials were told not to demand that these coinage be surrendered to the authorities for the minting of Ottoman coinage. These privileges were eventually extended to the merchants of most European states.

**Flexibility in Monetary Affairs:**

Yet another example of Ottoman pragmatism in monetary affairs is the emergence of separate monetary zones within the empire during the sixteenth and seventeenth centuries. The newly conquered territories, each of which was subject to different economic forces, already had well established currency systems of their own. In most cases, the Ottoman governments did not attempt to change them as they wished to avoid economic disruption and possibly popular unrest. On the one hand, the central government insisted on the unification of all gold coinage, the ultimate symbol of sovereignty, around the sultani which began to be issued in 1477. At the same time, the government allowed the continuation of the local silver currencies in many regions of the empire. Although the silver coinage minted in these territories began to bear the name of the Sultan, they remained distinct from the Istanbul-based akçe.

During the sixteenth and seventeenth centuries, the Balkans together with western and central Anatolia remained as the core regions of the akçe/sultani system described earlier. In outlying Wallachia, Moldavia and Hungary, on the other hand, Austrian, Poland, Hungarian and German coins were used more widely than Ottoman coins. In Crimea, coins were minted in the name of the local Khans even though Istanbul exerted some influence in monetary affairs especially since the prices of agricultural imports from Crimea played an important role in the economic life of Istanbul.

When the Ottomans conquered Egypt, they retained the standard small silver coin called meidia, nisf or nisf fidda which dated back to the early fifteenth century. Over time, this unit began to be called para and remained the basic silver standard in Egypt until the end of the eighteenth century. During the sixteenth century, the meidia also circulated in Arabia and Yemen. Other Ottoman coins were also minted in Yemen from the 1520s to the middle of the seventeenth century, but they do not appear to be significant economically. Syria, which remained as a transitional monetary zone between Egypt and Anatolia, akçes circulated together with meidins.

The areas neighboring Iran, from Eastern Anatolia to Iraq, were especially sensitive for the Ottoman government. In this region, the Ottoman mints produced a coin called dirham by the numismatists and shahi by the Ottoman documents and the local population. Its weight and silver content was similar to the shahis of Persia. Political factors may have contributed to this strategy of having a separate monetary zone next to Safavid Empire. Finally, in the Maghreb, political and economic ties to
Istanbul remained rather weak. Even though local coins carried the name of the Ottoman ruler, Istanbul exerted little influence over the evolution of the monetary system in Algeria, Tunisia and around Tripoli (9).

In conclusion, I would like to suggest that we need to revise our current views about the interventionism of the Ottoman governments especially in view of the serious limitations of the capabilities of pre-modern governments. The Ottoman governments were certainly well aware of these limitations and, for this reason, they chose to pursue a selective rather than comprehensive interventionism in economic and monetary affairs.

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Bebek, Istanbul, Turkey

(9) For further details, see Pamuk, A Monetary History of the Ottoman Empire, chapters 6 and 11.
To my family,
Banu, Zeynep, İker, İnci and Sinan
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# GLOSSARY

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<tr>
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<td>Ayan</td>
<td>Local notable</td>
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<tr>
<td>Bahşış</td>
<td>Bribe</td>
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<tr>
<td>British Consols</td>
<td>Long-term government bonds issued in Britain</td>
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<tr>
<td>Bourse</td>
<td>Stock exchange</td>
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<tr>
<td>Dönüm</td>
<td>An Ottoman unit of area (1 dönüm = 919 square meters)</td>
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<tr>
<td>Efendi</td>
<td>Ottoman title, gentleman</td>
</tr>
<tr>
<td>Egyptian Reftieh</td>
<td>Duty on tobacco exports to Egypt</td>
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<td>Esham</td>
<td>Bonds issued by the Ottoman government</td>
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<tr>
<td>Fatwa</td>
<td>Religious edict</td>
</tr>
<tr>
<td>Feddan</td>
<td>A unit of area used in Egypt (1 feddan = 4,200 square meters)</td>
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<tr>
<td>Havale</td>
<td>Payment order</td>
</tr>
<tr>
<td>Hoca</td>
<td>Muslim preacher</td>
</tr>
<tr>
<td>İltizam</td>
<td>Tax farming</td>
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<tr>
<td>İmam</td>
<td>Leader of the congregational prayer in Islam</td>
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<tr>
<td>Kaima</td>
<td>Form of paper money issued in the Ottoman Empire</td>
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<td>Kedive</td>
<td>Title borne by Egyptian rulers after 1867</td>
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<td>Kolcu</td>
<td>Surveillance unit of the tobacco monopoly</td>
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<td>Lots Turcs</td>
<td>Securities of the Ottoman Lottery Loan 1870–72</td>
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<td>Malikane</td>
<td>Life-term tax farm</td>
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<td>Muharrem</td>
<td>The first month in the Muslim calendar</td>
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<td>Muhasebeci</td>
<td>Accountant</td>
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<tr>
<td>Mubasalı</td>
<td>Tax collector</td>
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<td>Muhtar</td>
<td>Village headman</td>
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<td>Mültezim</td>
<td>Tax farmer</td>
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<tr>
<td>Term</td>
<td>Description</td>
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<tr>
<td>Nargile</td>
<td>Water pipe</td>
</tr>
<tr>
<td>Nazır</td>
<td>Minister</td>
</tr>
<tr>
<td>Nevareti</td>
<td>Office</td>
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<tr>
<td>Okka</td>
<td>An Ottoman unit of weight (1 akka = 1,280 grams)</td>
</tr>
<tr>
<td>Ojür</td>
<td>Tithe</td>
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<tr>
<td>Pașa</td>
<td>An honorary title granted to senior ministers and generals</td>
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<tr>
<td>Porte</td>
<td>Refers to the Ottoman court where government policies were established</td>
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<td>Ramazan</td>
<td>Muslim month of fasting</td>
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<td>Sarraf</td>
<td>Money lender</td>
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<td>Sergi</td>
<td>Promissory notes issued by the Ottoman government</td>
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<td>Sheriat</td>
<td>Islamic law</td>
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<tr>
<td>Sipahi</td>
<td>Cavalrymen assigned as the administrator of the timar land</td>
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<td>Sufa</td>
<td>Muslim theological students</td>
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<td>Şeyhülislam</td>
<td>Chief of religious affairs in the Ottoman state</td>
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<tr>
<td>Tekke</td>
<td>Religious gathering place</td>
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<td>Timar</td>
<td>Benefice holding</td>
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<tr>
<td>Tömbeki</td>
<td>A tobacco used when smoking a water pipe</td>
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<td>Vilâyet</td>
<td>Ottoman province</td>
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PRINCIPAL ABBREVIATIONS

ASIR     Administration of Six Indirect Revenues
BIO      Banque Impériale Ottomane, Ottoman Bank
CFB     Council of Foreign Bondholders
FDI     Foreign Direct Investment
GFD     Global Financial Database
Fr      Francs
LE      Livre Égyptien, Egyptian Pounds
LT      Livre Turque, Ottoman Lira (LT 1.1 = £1 = Fr 22.727)
OPDA    Ottoman Public Debt Administration
Pa      Para (LT 1 = Pa 4000)
Ps      Piastres (LT 1 = Ps 100)

A NOTE ON THE
PRONUNCIATION OF TURKISH
WORDS

Ç, ç = ‘j’ as in juice
Ç, ç = ‘ch’ as in church
Ğ, ğ = not pronounced, lengthens the preceding vowel
I, i = without a dot, as ‘er’ in farmer
İ, i = with a dot, as ‘ee’ in see
Ö, ö = as in the umlaut ‘ö’ in German
Ş, ş = ‘sh’ as in sheep
Ü, ü = as in the umlaut ‘ü’ in German
PREFACE AND ACKNOWLEDGEMENTS

A Turkish proverb says ‘debt is a man’s whip (motivation). From the mid-19th century on, Turkish officials adopted this saying as their motto and made a career out of foreign borrowing. As with many young Turks in 1980s, I became familiar with the words ‘foreign debt’ and IMF from my early teens. I witnessed the socio-economic transformation under the military dictatorship, which played a crucial role in the implementation of the IMF policies. As Turkish society underwent a traumatic transformation, I endeavored to understand the relationship between the IMF austerity measures and the military coup, which laid the foundations for the ‘structural adjustment’.

My early studies focused on identifying a pattern of insolvency and economic transformation imposed on the debtor countries. Turkish insolvency was an especially compelling case, since the measures imposed by the creditors were the driving force behind two major economic transformations experienced by the Turkish economy, a century apart. As I delved deeper into the case of Ottoman insolvency, I was struck by the similarities between the OPDA and the IMF. At least as important were their differences, which helped to distinguish the needs and mechanisms of 19th century imperialism from those of the capitalist world system of our times. This book is the product of this lengthy effort to understand the role of foreign indebtedness in the economic transformation of debtor countries with a focus on the distinguishing aspects of the Ottoman experience. It is an attempt to go beyond both the nationalist historical accounts that present the OPDA merely as an instrument of European imperialism and liberal accounts that portray it as a vanguard of economic reform and modernization. Both of these approaches have an exclusive focus on one side of the coin. In contrast, this work emphasizes the dialectics between imperialism and economic modernization. It illustrates the pivotal role of the OPDA in the penetration of European imperialism
as well as in the modernization of the economy and the reorganization of
state bureaucracy (particularly in fiscal matters), which in turn facilitated
the influx of foreign investment into the empire.

This book is a revision of my doctoral dissertation submitted to the
University of Southern California. Among many who made this work
possible, my advisor Timur Kuran deserves a special place. His academic
and editorial guidance was essential to the completion of this project. He
tirelessly read numerous drafts and raised issues that had previously gone
largely unnoticed in the literature. Other members of my committee were
Howard Sherman and the late Hayward Alker, whose suggestions
contributed to the originality of my work. I am also grateful to Barış
Kablamaç, the late Burhaneddin Ulutan, Erdoğan Keskinlculoğlu, Erol
Manisalı, Farideh Motamedi, Hakan Ongan, the late Haydar Kazgan,
İzettin Önder, Judith Stiehm, Mehmet Akbulut, Metin Coşgel, Murat
Bayız, Nora Hamilton, Pablo Heidrich, Rahşan Akbulut, Şelale Tüzel,
Şevket Pamuk, the late Türkel Minibas and Zeynep Türkyilmaz who
provided their valuable comments and help during the course of this
research.

I am greatly indebted to David Annetts whose criticism and editorial
contribution was indispensable to revising this work into a book. I should
also express my gratitude to Allison McKechnie and Joanna Godfrey, my
editor at I.B. Tauris, for their generous help and support. I owe thanks to
the Istanbul University Library, Ottoman Bank Archives and Research
Center and Lorans Tanatar Baruh for the images used in the book.

My sincere thanks go to all the institutions that provided me with
generous sponsoring. The research for this book has been supported in
part by a Turkish Higher Education Council fellowship, İktisatlar Vakfı
of Istanbul University School of Economics Alumni, University of
Southern California Center for International Studies dissertation
fellowship and Robert L. Friedheim fellowship.

Finally, I am grateful to my family, my daughter Zeynep, my wife Baru,
my parents İnci and İlker and my brother Sinan for their enduring love,
understanding and support throughout this research. I am blessed to have
them.
INTRODUCTION

In the mid-1870s and 1880s many debtor countries faced severe external debt service problems and eventually had to agree on new contracts for the settlement of their debts. This process always involved power asymmetries in favor of the creditors. In some cases, the lenders were satisfied with institutional changes aimed at securing the repayment of their loans and the creation of opportunities to further their economic and political ambitions. In other cases, the lenders went even further and seized direct control of the fiscal revenues of the debtor countries. Among these debtors, the Ottoman Empire presents a unique case of an Empire gradually dissolving and peripheralizing within the capitalist world economy. This book analyzes the external debt crisis in the Ottoman Empire by focusing on the institutional changes following the establishment of the Ottoman Public Debt Administration (OPDA), and its role in the peripheralization of the Ottoman economy.

The peripheralization of the Ottoman Empire brought about a weaker state apparatus, but also a more efficient one in terms of facilitating the operations of the world economy. This meant a relative diminution in the state’s ability to interfere with the flows of factors of production in the world economy, as well as specialization in certain products, transfer of new technologies to these sectors, improvement in the means of transportation, and the creation of a more efficient bureaucracy. Within this framework, this book demonstrates the dual role played by the OPDA. On the one hand, the function of the OPDA supports the ‘colonization through lending’ arguments due to its pivotal role in the peripheralization of the Ottoman Empire and in securing and furthering the interests of the countries directly or indirectly represented in the
administration. On the other hand, the OPDA initiated several measures that improved the condition of the sectors under its control by introducing new technologies, and increasing their productivity. It also generated positive externalities for several other sectors of the economy. Moreover, the administrative system set up by the OPDA contributed to the development of state entrepreneurship in the Empire and laid the foundations of the early republican economy based on state enterprises.

Previous studies analyzing the integration of the Ottoman Empire with the global economy focus on the 1838 British Free Trade Agreement as a major determinant of expanding external trade. Typically, they overlook the period of stagnation in the growth of Ottoman external trade after the 1870s and the second period of expansion in the 1890s. By contrast, this book argues that the external trade potential of the Empire was determined by the limitations of a pre-capitalist economy based largely on subsistence production. In this context, it focuses on the institutional reforms initiated by the OPDA that restructured the export-oriented sectors of the Ottoman economy, played a crucial role in the construction of railways, contributed to the gradual dissolution of subsistence production, and boosted the external trade of the Empire. Moreover, it emphasizes that the expansion of foreign trade in the 1890s was accompanied by a drastic increase in foreign direct investment after the establishment of the OPDA, which created a safer environment for foreign investment.

Theoretical background

There are two main strands of thought dealing with international capital movements and the external debt of sovereign borrowers. The first follows the classical international trade theory whereby capital movements between two countries are analyzed with reference to differences in interest rates and their implications on exchange rates.1 After the Second World War, the focus of the theory shifted to the development problems of the underdeveloped countries, emphasizing the necessity to mobilize external resources for higher levels of economic growth. This theory focuses on the gap between planned investments and the expected savings, aiming to determine the necessary optimal borrowing required to initiate the growth process and thereby secure the repayment of the loans.2

The second approach regarding international capital movements is the World System/Dependency approach, which has its roots in the Imperialism theories of the early twentieth century.3 In contrast to the
former literature’s focus on the dyadic relationship between the capital exporting and capital importing countries, these theories focus on the capital accumulation process in the world economy. Accordingly, they adopt a historical approach, treating the problem of external debt within the core-periphery framework, and discuss the phenomenon of indebtedness in the periphery within the context of a general theory of development and underdevelopment.

Although these two theories focus on different parts of the problem, they are not mutually exclusive. The first approach is ahistorical and fails to explain the dynamics behind recurring defaults. Moreover, it does not account for the role of politics in sovereign lending, and in the allocation of foreign funds in the debtor countries. The followers of this approach typically build models on how sovereign lending should occur rather than explaining the rationale behind how it actually took place. In exploring the background of Ottoman borrowing, this book makes use of certain arguments developed by this literature. The scope of this work, however, is far broader.

In an effort to analyze the OPDA’s role in the ‘peripheralization’ of the Ottoman Empire, this book draws on the concepts developed by the ‘world system/dependency approach’. This approach typically challenges the assumption that an understanding of social change within a particular region in the world system can be reached by focusing on the dynamics and changes occurring within these boundaries alone. Drawing on the well-known core-periphery framework, the dependency school argues that the worldwide capitalist accumulation process, instead of creating uniformity, deepens inequalities among nations and social formations by polarizing them as ‘core’ and ‘periphery’. Capital accumulation in the core is ‘auto-centric’, governed by its own internal dynamics. Yet, in the periphery it is dependent upon the core-periphery relationship, meaning it is determined by external dynamics.

The theory also warns us not to build a unidirectional cause and effect relationship from the core to the periphery. The capitalist world system is generated by the adaptation of every single internal formation to the unified whole, the world economy. The reproduction of every internal formation stimulates the reproduction of both other internal forms and the unified whole. Hence, capital accumulation in the core and underdevelopment in the periphery are interdependent processes. It is through this interaction that the hegemony of the core over the periphery
is established and maintained. Therefore, in accordance with the formulation of the relationship between core and periphery, peripheralization is identical with ‘entering the worldwide division of labor and thus ceasing to be a self contained unit of reproduction’.6

Historical studies on external debt reveal a sequence of decade-long surges in foreign lending that generated four outstanding periods of global debt service incapacity among sovereign borrowers in the late 1820s, the mid-1870s, the early 1930s and the early 1980s.7 Empirical studies in world system theory illustrate that capital flows from the core to the periphery coincide with periods of economic recession at the core of the world system, leading to a decline in profit rates.8 At this stage investment in the periphery becomes more attractive, and this potential induces capital outflow from the core to the periphery. This capital flow can be in the form of foreign government bonds or bank credits to the private sector in the periphery. However, the lack of necessary institutions limits the efficient allocation of financial resources, restraining economic growth in the periphery. These capital flows are interrupted by economic stagnation in the core economies, causing a serious decline in world trade, and leading to frequent defaults or rescheduling of external debt on behalf of the peripheral economies.9 World system theorists argue that debt settlements serve to restore the hegemony of the core over the periphery and to restructure the world economy in accordance with the growing needs of the core economies.

This study does not delve into a lengthy discussion of long-term business cycles. Rather, it focuses on the role of the debt settlement in creating a safer and more profitable environment for future capital flows into the Ottoman Empire and the imposition of a model of integration with the world economy that facilitates the flow of raw materials from the periphery to the core and the flow of consumer goods in the opposite direction. As argued by a regime theorist, Krasner, sovereign lending often results in violations of the Westphalian model through coercion and imposition.10 More often than not, defaults lead the lenders to seize control of the sources of revenue in debtor countries (collection and allocation of taxes). Therefore, even though lending to a sovereign is not the most secure of enterprises, it plays a crucial role in the peripheralization process as a vehicle through which the domestic autonomy of the weaker polities is compromised.11

A vital question that demands an answer is, given its foreseeable consequences, why would a ruler or a sovereign state resort to foreign
debt that may eventually force it to concede its domestic autonomy? Krasner maintains that rulers of borrowing countries would have preferred terms that did not include such invitations, but their actions were still voluntary. Considering their desperate need for external resources, capital with a loss of domestic autonomy was better than the status quo of no capital at all. In this sense external debt can be understood as a ‘mutually contingent’, ‘Pareto-improving’ contract, which often includes invitations that concede debtors’ sovereignty.

A well-known criticism of the world system/dependency approach is that it has a structural-functionalist bias, since it endeavors to explain history according to the functions of specific events and regions in relationship to the overall structure of the world system. According to this critique, the world system approach underestimates the internal dynamics of the specific economies while overrating the external dynamics (dynamics of the world economy). As such, it fails to explain the substantial differences in the debt patterns and economic performances of the debtor countries. Second, core-periphery analysis depends crucially on the consideration of an institutional structure that shapes the different economic performances of the core and periphery. As North emphasizes, to be more convincing these studies need to identify the institutional framework that produces the systematic uneven consequences implied by the theory.

The theoretical approach of this book aims to combine the core-periphery analysis with an institutional analysis, focusing on the role of formal and informal institutions as a set of rules that shapes the actions of the economic and the political actors. With a multi-level analysis – from the world system to the individual actors – many changes that are considered as exogenous can be internalized through an institutionalist approach. Moreover, world system theory can be provided with a ‘better understanding’ of the institutional mechanisms that would surely help to explain different responses from the periphery to the same set of institutions imposed by the core economies. In this context, this book aims to analyze the consequences of the institutional reforms introduced by the OPDA, by explaining the actions and the reasoning of all the agents in each and every relevant sector controlled by the administration. For this purpose it asks the following questions: while the existing production and trade networks were being altered, how was the incentive
structure restructured and which social group(s) benefited or lost out in the aftermath of this transition?

The Ottoman Public Debt Administration (OPDA)

Rising balance of payment deficits, and the increasing need for external sources to finance the military (during the Crimean War) forced the Ottoman Empire to take its first official foreign loan in 1854. Unproductive use of these external resources (for example, for importing military equipment and consumption by the state bureaucracy) resulted in a growing debt burden; consequently, the Ottoman state had severe debt service problems. In 1875, when the Empire became bankrupt, more than half of its revenues were committed to the debt service.

In 1881, Sultan Abdülhamid II issued the Decree of Muharrem establishing the Ottoman Public Debt Administration (OPDA). It should also be noted that by the decree, besides securing additional loans, the government hoped to avoid placing the Turkish finances directly in the hands of foreign powers, which was another option considered by the European states, proposed at the Berlin Congress in 1878.14

The Ottoman Council of Foreign Debt was ostensibly private in spite of close ties between its members and their home governments. The council consisted of two members from France, one each from Germany, Austria, Italy, and the Ottoman government itself, and one from Britain and Holland together. The foreign members of the council were selected by the banks, bondholders or, in the case of Italy, by the Rome Chamber of Commerce. The council established the Ottoman Public Debt Administration (OPDA).

The Decree of Muharrem entrusted to the OPDA the direct administration, receipt, and encashment, by means of agents acting under its authority, of the revenues and other sources ceded to the service of debt. It had the power to appoint and dismiss its employees, who were considered to be functionaries of the state. The government was also bound to give the OPDA, in the exercise of its administration, all the general assistance compatible with the existing institutions, and to provide military protection to ensure the security of its principal seats and local services. The administration was largely independent from the Ottoman government. The government was allowed to send a commissioner to the regular meetings of the administration and examine its books, but beyond this point it could not interfere with its operations. In case of a disagreement between the government and the council, an arbitration
panel consisting of four members (two appointed by the council, two by the government and a fifth chosen by the arbitrators if necessary) would be formed to resolve the matter.

Under the terms of the decree, the revenues from the salt and tobacco monopolies, the stamps and spirits tax, the fish tax, the silk tithe of certain districts, the Bulgaria tribute, the revenue of Eastern Rumelia and the surplus of the Cyprus revenue were irrevocably ceded to the OPDA, until the debt was liquidated. As the Ottoman government continued to borrow from abroad, the control of the administration over the resources of the Ottoman economy extended far beyond the assignments of the decree. Until the outbreak of the First World War in 1914, the OPDA functioned as a ‘state within the state’ controlling around one-third of state revenues.

The OPDA was at the center of public attention from the early days of its operation. As a foreign-controlled administration it was perceived as a severe blow to Turkish pride, which made it the target of the nationalist critiques of the Young Turks. Yet, the criticism seldom went beyond the discursive level and never evolved into a thorough analysis of the administration. During the Ottoman period, the only writer who provided a detailed and coherent analysis of the administration was a Russian socialist, known as Parvus Efendi, who endeavored to expose the role played by the OPDA and the Régie Company in the penetration of Western imperialism into the Empire.

The early studies of the OPDA are mostly by foreign writers. These works lack an analytical background and merely provide a narrative of the Ottoman external debt and the administration of the revenues under the OPDA. Their most important contribution is their reliance on primary sources such as the archives of the OPDA and the Council of Foreign Bondholders, as well as the personal accounts of prominent figures within the OPDA. The later studies of the OPDA by Turkish historians largely repeated the findings of the earlier second-hand sources. Almost all of these works treated the OPDA as an agent of imperialism. However, they did not even attempt to provide an analytical mechanism to explain the OPDA’s function in the penetration of European imperialism into the Empire.

This book, while laying out the institutional foundations of Western imperialism in the Ottoman Empire, also points out the pitfalls of the prevailing nationalist historical accounts, which portray the OPDA as one of the foremost causes of Ottoman underdevelopment and a major
obstacle to Ottoman modernization in the nineteenth century. These accounts overlook the fact that the establishment of the OPDA was a direct consequence of Ottoman underdevelopment rather than its direct cause. After all, the major cause of heavy foreign borrowing was the Ottoman state’s inability to catch up with the technological and military developments in the West, which made it increasingly vulnerable to foreign military threats. Moreover, the significant improvements later achieved by OPDA in the revenues under its control also illustrate the administrative and organizational backwardness of the Ottoman state machinery as compared to its Western counterparts.

There is no doubt that the OPDA contributed to the underdevelopment of the economy, particularly through its pivotal role in the transfer of economic surplus from the Empire to the core economies. First of all, the main purpose of the OPDA was the collection of taxes to pay the shares of the foreign bondholders. In this case, more efficient tax collection meant a larger tax burden on the impoverished agricultural population and a greater capital outflow from the economy. Second, most members of the administration also held positions in foreign corporations operating in the Ottoman Empire. In case of a disagreement between the government and these corporations, the administration usually sided with the interests of the latter. And perhaps most important of all, by limiting the state’s control over the appropriation and utilization of the economic surplus, it terminated the sporadic efforts of the palace to recreate Ottoman centralism. In these respects, the role of the OPDA lends support to the ‘colonization through lending’ arguments.

Furthermore, this work demonstrates another facet of the OPDA that has been overlooked in most historical accounts. As mentioned before, with the Decree of Muharrem the OPDA had received the right to administer, collect, and to hold in deposit the revenues resulting from the development of the sources of income ceded to the bondholders. In this framework, the OPDA initiated several measures including administrative reforms and technology transfers that not only facilitated growth in sectors under its responsibility, but also generated positive externalities for other sectors. The administrative reforms initiated by the OPDA also set an example for the Ottoman bureaucracy. Double-entry bookkeeping, first introduced by the BIO (La Banque Impériale Ottomane) and later by the OPDA to state accounting, was later adopted by the Ottoman state as the standard accounting principle. As discussed in detail later, the institutional reforms initiated by the administration contributed to the
development and modernization of state entrepreneurship in the Empire, and formed the backbone of the early republican economy.

The ‘dual role’ of the OPDA emphasized in this study is parallel to what Sunar calls the ‘paradox of peripheralism’.21 Discussing the role of the English in the Reform Period (1839–76), Sunar points out a very common disagreement that has divided students of nineteenth century Ottoman history:

some have praised the English as true precursors of Turkish modernization, while others have condemned the English as Imperialists solely responsible for Ottoman underdevelopment.22

Similar disagreements may be observed when it comes to other institutional changes imposed by foreign powers, such as the establishment of the OPDA, which occurred during the peripheralization of the Ottoman Empire. Despite the disagreement over the role of the OPDA (or Britain in the former case), arguments on both sides are based on the assumption that these concepts – ‘modernization’ and ‘peripheralization’ or ‘underdevelopment’ – are mutually exclusive.

Incorporation into the world economy is generally defined as becoming an integral part of the division of labor and responding to the imperatives of the drive for accumulation of capital.23 According to this argument, peripheralization requires restructuring of the state machinery to form a state that operates within an interstate system as opposed to a self-centered and self-responsive ‘world Empire’. Inalcik defines this transition as a change in the ‘concept of state’.24 On one hand, this means the relative diminution of the state’s ability to interfere with the flows of factors of production in the world economy; on the other, it means specialization in certain products, improving the means of transportation, creation of a more efficient bureaucracy, and the transfer of new technologies and information into these areas. Therefore, this book argues that the peripheralization process triggered by the OPDA brought about not only a weaker state apparatus but also a more efficient one in terms of facilitating the operations of the world economy.

In the literature, the OPDA is often portrayed simply as an official agent of foreign powers or Western capitalism.25 This approach perceives Western capitalism as a monolithic entity and overlooks the fact that different capitalist groups, even with the same country of origin, might have conflicting interests on a variety of issues. The members of the
OPDA were directly appointed by the bondholder organizations of the countries concerned. Hence, they were responsible first to the bondholders. There is no doubt that these representatives were under the influence of their governments, sometimes even handpicked by them. But on many occasions they also came into conflict with the general policies of their governments by protecting the interests of their bondholders, which were closely tied to the performance of the Ottoman economy.26

Another argument observed in the nationalist critiques of the period is that foreigners forced loans on the government at usurious rates.27 As discussed in detail later, the Ottoman government complained that they could not borrow when they were in need. They never complained, however, that they were forced to borrow when it was not necessary. The high rates on foreign loans stemmed mostly from mistrust in Ottoman finances and reform attempts. Also, with the formation of the OPDA, the risk premiums on foreign loans declined drastically due to the strong enforcement mechanisms for sovereign compliance during the OPDA era. Moreover, unable to command confidence in the financial markets by its own means, the government aimed to benefit from the credibility of the OPDA. Therefore, when necessary, the government voluntarily transferred more sources of revenue to the control of the OPDA in order to raise new loans at more favorable terms. Hence, in a manner that echoes the argument developed by North and Weingast in their seminal paper on the economic consequences of the Glorious Revolution, the constraints on the sovereign enabled the Ottoman government to regain access to foreign capital markets with lower risk premiums.28

Peripheralization of the Ottoman Empire in the nineteenth century and the role of the Ottoman Public Debt Administration

It is difficult to pinpoint the beginning of the transformation of the Ottoman Empire from a self responsive, auto-centric ‘world Empire’ into a peripheral economy governed by the dynamics of the world economy.29 Nevertheless, there is a near-consensus in the literature that the incorporation of the Ottoman Empire into the world economy gained momentum in the nineteenth century.

Previous studies emphasized the crucial role played by the 1838 British Free Trade Agreement in the peripheralization of the Ottoman economy in the nineteenth century. The agreement was not the first capitulation granted to foreign powers, nor was it the last. However, by introducing restrictions on the establishment of state monopolies and abolishing
export restrictions for the first time, it went far beyond the privileges granted to foreigners in the previous capitulations and took the form of a major restriction on the Porte’s fiscal sovereignty. Moreover, by exempting foreigners from internal duties, it gave foreign merchants an advantage over their local counterparts. It also facilitated the penetration of European goods into the interior parts of the Empire.

There is a consensus in the literature that the 1838 Trade Agreement served as a major determinant of the expanding external trade of the Empire in the nineteenth century. This consensus is supported by empirical evidence, which also illustrates the stagnation in the growth rate of Ottoman external trade after the 1870s and another period of expansion in the 1890s, as observed from Figure 1.1. This book aims to explore the role of the OPDA in the second period of expansion in Ottoman external trade after the 1890s. From this perspective, it argues that the external trade potential of the Empire was determined by the limitations of a pre-capitalist economy based largely on subsistence production, lacking the infrastructure for further expansion of external trade. In this context, it focuses on the institutional reforms initiated by the OPDA that restructured the export-oriented sectors of the Ottoman economy, played a crucial role in the construction of railways, and hence contributed to the gradual dissolution of the subsistence production, and boosted the external trade of the Empire in this period. Moreover, it emphasizes that the expansion of foreign trade in the 1890s was accompanied by a drastic increase in foreign direct investment after the establishment of the OPDA, which created a safer environment for foreign investment. This is also the distinguishing element of the peripheralization process experienced in the OPDA period.

Organization of the book

Chapter 2 commences with an analysis of the Ottoman financial crisis, and the dynamics behind the demand for external loans in the pre-OPDA period. Despite mounting financial problems, the Ottoman government managed to meet its budget deficits until the 1850s without resorting directly to foreign credit, by various means such as the debasement of the coinage, the issue of securities, and printing banknotes. However, the treasury crisis brought about by the cost of the Crimean War in 1854 forced the Ottoman Empire to reconsider the borrowing opportunities in foreign markets. Debasement of the coinage or the issue of paper
currencies had already led to severe problems. Local bankers, who played
an intermediary role between the government and foreign capital, asked
for rates well above the prevailing average market rates in return for
undertaking the risk of lending to the government. Under these
circumstances, the Ottoman government contracted its first foreign loan,
under the official guarantee of its allies Britain and France, and embarked
on a path that would lead ultimately to its insolvency.

The second part of Chapter 2 provides an in-depth analysis of the debt
contracts made in the pre-OPDA period and the institutional reforms
carried out by the government to improve the Empire’s credit. In order to
issue bonds in external markets, the debtor country must show some
effective guarantees of its capacity for future repayment. In the Ottoman
case, the Porte still had not established a budget system; the existing
accounts of the treasury were unreliable and hardly monitorable. Under
these circumstances, it was very difficult for the government to issue loans
secured on the general revenues of the treasury and additional revenues
had to be pledged as collateral. The more liquid and monitorable the
collateral, the more confidence it would command in the foreign markets.
For every attempt to raise a new loan the Porte had to rely more on less
attractive collaterals, which gradually brought an increase in the risk
premiums charged on these loans. Following the 1860s, the Porte initiated
several institutional reforms in order to gain credibility in the European
markets. These reforms or reform attempts included several measures that
aimed to improve the reliability and the monitorability of the financial
accounts. In some cases, the government went as far as delegating the
collection of certain central government revenues to a foreign-owned
bank, the BIO, or setting up a largely independent commission to control
and approve the budgets. Nevertheless, European investors continued to
question the sincerity of the government and risk premiums remained very
high on the series of bonds issued in this period. The skepticism of the
investors was often justified as the reforms were not fully carried through
after the loans had been secured.

Chapter 3 explores theoretical issues in sovereign lending and aims to
explain the drastic fall in risk premiums on foreign loans, as well as the
significant increase in foreign direct investment following the
establishment of the OPDA. The chapter starts with a discussion of the
problems of monitoring and enforcement of sovereign compliance in
international lending and lays out the factors that affect the risk premium
through a game theoretical model.
Figure 1.1 Ottoman foreign trade: 1830–1913

Historical evidence shows that in the absence of international enforcement mechanisms, mistrust between the creditors and the debtor countries limits the cross-border credit flow and damages both sides in the credit markets. Hence, each side seeks to develop a mechanism to overcome this problem. On the supply side, the creditors seek to develop credible threats. The principal penalty available to creditors is to block the defaulters’ access to outside sources. However, the enforcement of this penalty requires coordination among private creditors and their home governments. On the demand side, debtor countries seek to develop commitment mechanisms to further their access to foreign credits with lower interest rates.

The creation of the OPDA in 1881 was a result of the European pressure for debt settlement following the default in 1875. For creditors, the OPDA represented a cooperative effort to secure the repayment of foreign loans and to develop a monitoring and enforcement mechanism for future direct or indirect investments in the Empire. For the Ottoman Empire, on the other hand, the establishment of the OPDA constituted a severe blow to Ottoman pride and sovereignty. For the first time in its history, the Ottomans were forced to surrender a considerable portion of the state’s most liquid revenues to the unconditional control of a ‘foreign’ commission, which constituted a ‘state within the state’.

Nevertheless, it is also true that the establishment of the OPDA provided an instrument for committing credibly to the terms specified in the debt contracts and to the protection of foreign investment in the Empire. This commitment created a safer environment for foreign capital and gave the Ottoman government greater access to foreign capital markets at lower risk premiums. Moreover, the existence of the OPDA encouraged foreign direct investment in the Empire at an unprecedented rate. A considerable amount of the FDI during this period went to railway schemes, which not only facilitated domestic economic activities but also enabled the penetration of Western goods into the interior parts of the country. This chapter aims to further our understanding of the changing nature of the European economic penetration of the Ottoman Empire and the institutional infrastructure that allowed this penetration to proceed. In this context, it provides answers to the following questions: Why did the nature of capital flow change after the OPDA? Why did the foreign direct investment take place in this period, not before? How did a government which had defaulted before, and hence already had a bad reputation as a borrower, regain access to foreign capital markets at considerably lower risk premiums?
Chapter 4 provides an in-depth analysis of the management of revenues under the OPDA, tracks the sources of increase in these revenues, and describes the obstacles encountered by the administration. The OPDA, considered as ‘the outpost of European imperialism’, also provided a good example of the best features of European financial management. In many respects the administrative system introduced by the OPDA contrasted greatly with the financial administration of the Ottoman government. The OPDA introduced new technologies to the relevant sectors under its responsibility, improved the regulations, and made the necessary legislative changes concerning the development of its revenues. Significant improvements achieved in the OPDA revenues, and the introduction of new institutions in relevant sectors, also generated positive externalities for other sectors of the economy.

Chapter 4 also points out that the international treaties imposed on the Porte by the European powers restricted the administration’s ability to improve its revenues. In several cases, including wine duties, stamp and patent laws, the OPDA officials complained about the unfair conditions imposed by these treaties and asked for their revision. Hence, despite being widely regarded as the ‘outpost of European imperialism’ in the Empire, the OPDA itself suffered from the impositions of the hegemonic powers. These examples also illustrate the nature of disagreements on foreign policy issues towards the Empire that arose among European capitalists with conflicting interests in the Ottoman economy. The bondholders or other investors whose interests were tied to those of the Ottoman economy called for more protective measures, while European merchants pushed for less protection and increasing privileges, regardless of the adverse consequences on the overall condition of the economy.

Chapter 5 provides a detailed study of the tobacco monopoly farmed out by the OPDA to the Régie Company, which was formed by a consortium of European banks. The Régie Company was not only the largest foreign investment in the country, but also the largest corporation. The capital of the company made up around 23 percent of total foreign direct investment in the Ottoman Empire in 1881–1914. It held the tobacco monopoly for 42 years, from 1883 until the contract was terminated in 1925, two years after the foundation of the Turkish Republic.

One immediate effect of the Régie on tobacco economy was a considerable fall in the number of tobacco cultivators. This was mostly
due to the elimination of small producers as well as high fees, low purchase prices, and excessive regulations applied to remaining growers. Tobacco cultivators often complained that the monopoly suppressed purchase prices whilst inflating retail prices to the frustration of consumers. Smuggling flourished under these conditions, and became a major obstacle to the success of the company. Throughout its operation, the Régie remained a focus of public opposition. It was regarded as a symbol of Western imperialism and exploitation, mostly due to its controversial methods in dealing with the cultivators and its infamous surveillance unit, *kolcus*, which was held responsible for the death of thousands.

Despite the Régie’s significant place in the Ottoman economy during the last four decades of the Empire, there is no in-depth study of the company in the literature. Chapter 5 aims to fill this gap by providing a portrayal of the Régie system, and identifying the actors who lost and gained from the institutional arrangements introduced by the company. The majority of the data used in the chapter come from first-hand sources, the annual reports of the Régie Company and the Corporation of Foreign Bondholders.
In the Ottoman Empire, the land was principally owned by the Sultan and was rented to the peasants in return for taxes. Until the sixteenth century, taxation was primarily based on the tımar institution. Sipahis were state employees who were assigned by the Sultan as administrators of state land and were responsible for the collection of taxes. In return, sipahis were obliged to use these revenues locally to maintain a local army, and provide the central administration with a predetermined number of cavalry units in times of war. Although very common, the tımar system was not practiced in all conquered territories. In many remote areas, such as Eastern Anatolia, Iraq, Egypt, Yemen, Romania, Moldavia and the Maghrib, the Ottoman government collected tributes through local officials and left the local administrations largely unaltered to avoid popular unrest. This practice also minimized the transaction costs in tax collection. Local governments were likely to be in a better position to minimize the costs of measuring and collecting variable taxes, due to their closer proximity to the tax base.

Until the second half of the sixteenth century, the existing decentralized military structure based on the tımar system functioned well, and the Empire continued to expand. During this period, the financial position of
the Ottoman Empire was underpinned by the revenues obtained through rapid territorial expansion. Therefore, the state did not feel the need to alter the tax system in order to increase the revenues collected at the center. However, in the late sixteenth century, advances in arms technology, mainly the introduction of firearms, created a need for a modern central army. This development undermined the basis of the timar system in two ways. On one hand, it led to the replacement of light cavalry provided by sipahis with infantry. On the other hand, the establishment of a central Imperial army required the development of new financial sources. Hence, it increased the pressure on the state to collect the tax revenues at the central treasury. This led to the gradual dissolution of the timar system and its replacement by the iltizam system.

İltizam was based on tax-farm auctioning and subcontracting, thus providing the cash flow required for financing the central Imperial army. In late medieval and early modern Europe, domestic borrowing by sovereigns was financed by the banking houses. In the Ottoman Empire, domestic borrowings were mainly handled through these tax-farming arrangements by which individuals possessing liquid capital assets advanced cash to the government in return for the right to farm the taxes of a given region or fiscal unit for a fixed period of time. In this period, former government officials, merchants and certain other wealthy individuals became the new tax collectors. The emerging local elite, ayans, gradually turned economic control over their territories into political power and became involved in numerous provincial revolts against the central government.

In need of immediate resources for financing the modernization of the military, the government began to increase the length of the tax-farming contracts, demanding an increasingly higher proportion of the auction price in advance. This trend led to the introduction of the malikane system in 1695, in which the revenue source was farmed out on a life-term basis in return for a large initial sum and annual payments. Nevertheless, neither of these attempts to reform the tax collection system brought a long-term solution to the Ottoman budget deficits, which were often financed by debasements in the coinage. Towards the end of the eighteenth century, for the first time, the Ottoman administration considered borrowing from abroad. However, due to the economic difficulties in Europe arising after the French Revolution, and the reluctance on the Ottoman side, this possibility was not pursued any further, until after 1854.
In 1839, the Ottoman administration introduced extensive tax reform as part of the administrative reorganization under the Tanzimat reforms. An important measure related to tax reform was that all the taxes would in future be collected by the salaried government agents, muhassıls. This system worked favorably in the case of many urban taxes. In rural areas, however, the government encountered great difficulties in the collection of tithes, öşür, which accounted for a considerable part of state revenues. The major motive behind the implementation of the tax reform in these areas was to curb the power of the provincial elite, the ayans, and restore central authority. Yet the economic consequences of this political move turned out to be costly for the treasury. First of all, there were simply not enough new bureaucrats willing and able to act as salaried muhassıls, returning all their collections to the treasury. The existing tax farmers had already turned into businessmen and such an arrangement was not profitable for them; hence they opposed the reform. Under these conditions, the salaried agents sent out to the countryside faced many difficulties due to their lack of local knowledge and connections. Consequently, the new system failed to fulfill expectations and öşür revenues fell drastically in 1840, forcing the government to revert to the tax farming system. It was only after the accession of Abdülhamid II in 1877 that the tax farms were abolished by a law passed by the parliament. The same law established the department of cultivation and sheep tax for the collection of öşür revenues. Even then, the opposition of the tax farmers delayed the establishment of the new system throughout the Empire until late in the reign of Abdülhamid II.

Another major restriction on the development of state revenues was the commercial treaties (capitulations) imposed on the Ottoman Empire by the European powers. The capitulations granted extraterritorial privileges to foreign subjects conducting business in the Empire under Islamic law. Initially, these privileges were granted voluntarily by the rulers with the main motive being the stimulation of interregional trade in the Empire, which would lead ultimately to an increase in their tariff revenues. However, with the gradual decline of the Ottoman Empire in world politics, the capitulations took the form of impositions restricting the sovereignty of the rulers and instruments of discrimination against the local population. By the nineteenth century, the destructive consequences of these treaties on the state finances were so evident that it was even
admitted by Adam Block, the representative of the British and Belgian Bondholders in the OPDA:

The fetters of a contractual trade regime deprive the State of the legitimate means of raising money to defray those expenses without which political and administrative reform is an impossibility.11

According to Adam Block, the system of free trade as practiced in the Ottoman Empire restricted every attempt at industrial expansion, impeded the development of its considerable resources, and created de facto foreign monopolies, thus contributing to the impoverishment of native enterprise. Block's opinion on capitulations was shared by Charles Morawitz, a foreign observer and a specialist on the Ottoman economy, who argued that the restrictions imposed by the capitulations were among the major obstacles to reform in the Empire.12

The first major restriction imposed by the capitulations was that the Ottoman government was deprived of its sovereign rights to set customs duties in a way that maximized its revenues whilst protecting local industry. European governments exercised such rights; indeed, at a time when most of the European powers were endeavoring to protect their own industry and agriculture from foreign protection, the same powers were constantly pressurizing the Porte to lower customs barriers.13

In the Ottoman Empire, customs taxes were among the charges sanctioned by the Islamic law, shari'a, and were traditionally imposed at the ödür rate of 10 percent for foreign and 2.5 percent for internal trade.14 The capitulations granted to European powers starting in the sixteenth century lowered the duty on foreign goods below 5 percent. After the capitulations of 1673, granted first to France, both exports and imports were fixed at a uniform rate of 3 percent ad valorem. Additionally, the buyers of foreign goods paid a supplementary duty of 2 percent, while exporters of foreign goods had to pay higher duties and were subjected to many prohibitions and monopoly restrictions, particularly in the case of essential goods such as wheat and rice. An extra 8 percent internal duty was also imposed on goods carried by land.15

Among the capitulations, the most controversial one – because of its perceived destructive effects on native production – was the 1838 Trade Agreement, also known as the Baltalimanı Treaty. In contrast to the previous capitulations, this treaty did not directly lower the customs duties. Tariffs were even raised to 5 percent on imports and 12 percent on
exports. However, it removed all monopolies and restrictions on foreign trade, hence foreign subjects were allowed to export or import all sorts of goods without restrictions. The agreement would apply to all parts of the Empire including Egypt, where Mehmed Ali had established an elaborate system of state monopolies and a protective foreign trade policy. Moreover, the crucial element of the agreement regarding duties was the privileges granted to foreign subjects in terms of internal duties. According to the terms of the treaty the transit duties imposed on goods were dropped to 3 percent for foreigners, even as local merchants continued to pay 8 percent. Hence, the resultant tax regime put local merchants at a profound disadvantage when competing with their foreign counterparts.

In 1861, at the insistence of the Porte, new treaties were signed with foreign powers, raising import duties to 8 percent and providing for the gradual reduction of export duties to 1 percent. Further attempts at modification of the treaties were rejected by the powers until 1907, when the import duties were raised to 11 percent with the support of the OPDA, which took control of these revenues under the assignments of the Decree of Muharrem. Both the OPDA and the Ottoman government constantly appealed to the foreign powers for a further 4 percent increase in import duties, which could only be realized in 1914. After the Ottoman government’s entry into the war, the capitulations were abolished and a more protective trade policy was adopted. In this context, in 1916, the uniform ad valorem tax was replaced by differentiated specific duties designed to yield more revenue and protect the developing local industries.

While trade protection has its obvious disadvantages, such as preserving inefficient industries in their existing form, the free trade regime as practiced in the Ottoman economy prevented the state from taking any protective measures to stimulate the development of infant industries. As confirmed by Adam Block’s comments, it was not only local producers who sought protection. A very large portion of the foreign direct investment in the Empire went to monopolies or sectors that were not exposed to foreign competition, such as the tobacco industry, railways, tramways, ports, gas, electricity and waterworks. In this context, it is hardly surprising that the foreign-owned tobacco monopoly was also the largest foreign enterprise in the economy. In addition, due to these unilateral compromises, the Ottoman Empire was deprived of the
opportunity of bargaining with other European states to lower the trade barriers applied to their products. For instance, the high tariffs on Turkish wine in France and Italy, a major complaint of the OPDA, could have been made a bargaining issue, had these countries not already been granted privileges.

The second major restriction imposed by the capitulations concerned state monopolies. In most developed countries state monopolies existed in various sectors of the economy, such as salt, tobacco, alcohol, matches, playing cards, petroleum, cigarette paper, etc. and the revenues derived from these monopolies made up a considerable portion of state revenues. However, the Ottoman Empire was deprived of the right to establish monopolies in sectors other than salt and tobacco. According to Adam Block, these treaties, by preventing the establishment of monopolies, constituted a ‘serious obstacle to the progress and security of the country’.21

Adam Block was right in addressing the fact that deprivation of the right to establish monopolies also deprived the Ottoman state of considerable revenue. Considering the state’s inability to collect tax on the profits of the commercial activities of foreign subjects, this particular source of income gained more importance.

In terms of its effects on the general economy, this argument has both its pros and cons. In a country such as Turkey where capital accumulation in private hands was extremely limited, establishing state monopolies could also be considered as the only way to establish large factories that could benefit from economies of scale. However, it is also true that establishing such monopolies would impose costs on the economy by blocking private attempts at industrialization in these sectors. As we will see in the case of the Régie Company, the establishment of the tobacco monopoly had been costly for the economy by causing the emigration of cigarette producers. Some of these entrepreneurs moved to Egypt, because of the absence of such restrictions in the Egyptian tobacco sector, and later formed the backbone of Egyptian industrialization.

The final major restriction imposed on the development of state revenues was the tax privileges granted to foreign citizens. This privileged population included not only foreigners but also a number of minorities in the business world, the protégés of the European powers.22 With the exception of real estate, these foreign subjects were exempted from direct taxation unless their governments gave consent. Only in real estate were they subject to the same status as the Ottomans, except in Hidjaz where
they were not allowed to own property. Hence, foreign observers regarded the situation of the foreigner engaged in Turkey as ‘highly enviable’ since their fiscal privileges were allowed in no Western state. As we will later discuss in detail, the increasing role of this privileged population in the economy and the gradual replacement of Muslims in business activities seriously hampered the Ottoman tax revenues as well as OPDA revenues after 1881.

**Domestic borrowing and the financial monopoly of the Galata Bankers**

In the second half of the eighteenth century, the Ottoman government sought new methods to broaden the base of state borrowing and reach beyond the limited numbers of large sarrafı, who tended to dominate the malikané auctions, towards a larger pool of small and medium-sized lenders. For this purpose, in 1774 the Ottoman government introduced a new system of domestic borrowing called ışham. İshams were issued by the government to pay for the goods and services for which ready money could not be found, and for the repayment of short-term loans over longer terms. These securities were secured on anticipated revenues from particular sources. When the funds of the ministries were exhausted, payments were also made in serjis, an official promise to pay at a later date.

Another form of government paper issued for the same purpose was the ḵaime. Kaimes were treasury notes, the first issued in 1840 with a life term of eight years. From 1840–44 they carried interest of 12.5 percent per annum, paid half yearly. Thereafter, they bore a rate of 6 percent per annum, until maturity. These notes were issued in standard currency denominations, but initially only in very large ones. After a while, they came to be used as a medium of exchange in daily transactions. In 1852, the ḵaime was transformed into a paper currency when the government started issuing large amounts of non-interest bearing ḵaimés in low denominations. These paper currencies, unbacked by specie, were increasingly used for the payment of the official salaries. By the end of the Crimean War, the ḵaime had become the main form of currency used in Istanbul. However, the growing mistrust of the ḵaime and its depreciation was a major problem for the economy. Therefore, its withdrawal from the market and replacement by a sound metallic currency became an urgent priority both for the sake of Ottoman commerce and the restoration of the state’s finances.
Before the 1850s, the Porte employed exclusively native *sarrafi* (Galata Bankers) for the relatively limited financial accommodations of the Empire. These Galata Bankers – called after the financial district of Galata – were generally Greeks, Jews, Armenians and Levantines. The Galata Bankers provided the Ottoman government with short-term advances, for one or two years at the most, often in return for *eshams*. The rates of interest charged by these bankers were quite high; they usually ranged between 12 percent and 18 percent, but could go considerably higher. This range not only reflected the scarcity of capital in the Empire, but also the high risks involved in lending to the government and the high transaction costs incurred in the enforcement of debt contracts; particularly due to the commissions paid to third parties within the bureaucracy to ensure the repayment of the debt. As noted by Clay, 'the government had never yet formally defaulted on its debts, but there could be little certainty about exact dates of repayment and until well within living memory individual creditors had been subject to the arbitrary confiscation of their assets and even execution'.

It is hard to argue that *eshams* were as successful as originally planned in broadening the base of state borrowing beyond the large financiers. The recipients of *eshams* and *sergis* were often unwilling or unable to wait for the highly uncertain maturity date. Consequently, they cashed these papers by selling them to the Galata Bankers at a considerable discount. Through this system the government securities were gathered in the hands of this small minority of *sarrafi* who accrued substantial profits. It was extremely hard for small creditors (either contractors, or state officials paid in promissory notes) to receive their payments from the government, particularly in times of hardship. The Galata Bankers were undoubtedly more powerful; not only because they were the only major source of capital the government could borrow from when needed, but also they had close ties with *Paşas* through whom they could exert some influence on the government and guarantee the repayment of their loans, at least to some degree:

A poor pensioner who has no influential contractor, or a contractor whose further services are not for the moment required, may be put off from day to day, from week to week, from month to month, and even from year to year; whereas a superior official of the Palace, an influential Pasha, a contractor who regularly supplies the troops, or a Galata banker who is
ready to make a little advance in moments of extreme difficulty, cannot be so unceremoniously treated.\textsuperscript{30}

Hence, the beneficiaries of the growing financial instability and uncertainty in the Empire were the Galata Bankers and their collaborators in the bureaucracy. The bankers charged the holders of government securities premiums for undertaking the risk and managed to encash these papers rather easily by means of their connections. As the financial needs of the Empire grew, the Porte became more dependent on these bankers. Until the 1850s, the Galata Bankers enjoyed exceptionally high interest on their credits thanks to their unrivaled position in the domestic market and built a reputation in Europe as the ‘Galata Vampires’.\textsuperscript{31}

**External borrowing and institutional reforms to improve the credit of the Empire: 1854–75**

**Ottoman foreign borrowing in the pre-OPDA era**

Until the 1850s the Ottoman government managed to meet its budget deficits without resorting directly to foreign credit, using various means such as the debasement of the coinage and the issue of securities and banknotes. However, foreign capital hardly remained indifferent to the high interest rates offered by the government. Foreign money flooded into the country through the local intermediaries, the Galata Bankers, most of whom either had direct links with foreign banking houses in financial centers or had established their own branches in Western capitals.\textsuperscript{32} They borrowed from abroad and lent to the government, often enjoying substantial profits for their intermediary roles. Through this system the government continued to borrow from the local bankers at higher interest rates and avoided borrowing directly from foreign creditors.

The major reason for the Porte’s reluctance was the potential political costs of foreign borrowing.\textsuperscript{33} It was not uncommon for European governments to demand political concessions from the borrower as a precondition to open their markets to their bonds. Above all, the Porte feared the possibility of foreign intervention in case of any difficulty in servicing debt. In 1850, Reşid Paşa decided to break the monopoly of the domestic bankers and signed a successful foreign loan agreement for Fr 55 million. However, shortly after agreeing the loan, Reşid Paşa was removed
from power, and the contract was cancelled by the government due to these concerns.34

In 1854, the great treasury crisis caused by the expenses incurred during the Crimean War forced the Ottoman Empire to reconsider the borrowing opportunities in foreign markets. In the same year, with the support of its allies Britain and France, the government contracted its first official foreign loan in the European markets, in spite of all the concerns about its consequences. The original amount of the loan was £3 million; the bonds were floated in Britain at an 80 percent issue rate, carrying 6 percent interest. The loan was secured against the Egyptian tribute, which would be deposited directly by the Khedive of Egypt at the Bank of England. Thus, the collateral would be secured in the creditor country. Moreover, in the prospectus of the loan issued by the underwriting banking house in London, the approval of the British government was specifically emphasized. This, of course, did not mean a guarantee in any legal sense (as in the 1855 loan) but played a crucial role, along with the collateral, in securing better terms for the loan.35

Some Ottoman historians argued that the issue of the 1854 loan marked the date the Ottoman government was 'pushed' into indebtedness by the European powers.36 This interpretation overlooks the fact that the Ottoman treasury was not left with many other alternatives. By the time a new loan was floated in the European markets, much of the money had in fact already been borrowed from the domestic market in the form of short-term advances, or would have to be borrowed in the near future in order to meet the payments on earlier loans. In this sense, the successive foreign loans were nothing more than a series of consolidation operations through which the domestic short-term loans carrying high interest rates were repaid by foreign long-term borrowing carrying considerably lower interest rates. Moreover, as argued by Clay, the complaint of the Ottoman officials was not that the European powers pushed them to borrow from abroad unnecessarily, but that they refused to lend on demand.37

In 1854, the government had already exhausted all its domestic borrowing alternatives. The interest rates charged by the Galata Bankers on their short-term advances had reached over 15 percent. Large issues of kaimes had already started causing problems. Further depreciation of the currency would bring nothing but more political unrest. On the other hand, the terms of the 1854 loan were very attractive, considering the financial difficulties of the Empire during the Crimean War. The effective interest rate on this loan was 7.9 percent, significantly below the interest
asked by the local bankers. In this sense, it was the most successful foreign loan contract in the pre-OPDA era, with the exception of the guaranteed loan of 1855.

The net receipts from the 1854 loan fell far short of the accumulated expenses incurred by the Ottoman government whilst waging war in Crimea. Hence, the Ottoman government issued another loan in 1855, this time under the official guarantee of its allies who demanded that the loan be devoted to financing the war. ‘The guarantee of the British and French governments’, Blaisdell notes, ‘brought the most conservative bankers into the field, and the price reflected this competition’.38 The 1855 loan was the most favorable foreign loan contracted by the Ottoman government, in economic terms. The £5 million loan was issued at 102.6 percent, which simply means that the government received 2.6 percent more than the face value of the bonds, yielding 4 percent nominal interest. The loan was secured on the Egyptian tribute held by the Bank of England and the customs revenues of İzmir and Syria.

These two loans were called the Egyptian Tribute loans, secured on the most liquid and the least risky collateral the Empire had to offer. The support of the allies was without a doubt another crucial factor that contributed to the success of these loans, despite the war conditions. After the war, the government continued to borrow from foreign markets. In 1902, Morawitz noted ‘There are things that are very quickly learned. The art of indebtedness is among them. As soon as the Ottoman Empire was initiated it made rapid progress in this direction.’39 First used for meeting the demands of the war, then for retiring the progressively depreciating kaimes, foreign borrowing eventually became a major instrument for meeting budget deficits. However, with each loan the credibility of the Empire depreciated even further.

Contractors of the Ottoman bonds often enjoyed a large commission and/or a wide spread between the contract and issue prices (the price the government received from the contractor and the price at which the contractor offered the loan to the public) in return for the risk borne by underwriting the transaction. Also, in many contracts an option clause was introduced, according to which the issuing house, buying outright a part of the issue, reserved the right to float the remainder at a price of its choosing. On the other hand, the issuing house was liable to pay a fixed price to the government. Even though this process entailed some risk for the issuers, it almost invariably worked in their favor.40
Table 2.1: Ottoman foreign debt in the pre-OPDA era: 1854–77

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Debt (£)</th>
<th>Rate of Issue</th>
<th>Amount acquired (£)</th>
<th>% Acquired</th>
<th>Nominal Interest</th>
<th>Effective Interest</th>
<th>Allocated to</th>
<th>Fledges</th>
<th>Major Investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1854</td>
<td>3,006,000</td>
<td>80.00%</td>
<td>2,286,285</td>
<td>76%</td>
<td>6.6%</td>
<td>7.9%</td>
<td>Crimean war</td>
<td>Egyptian tribute</td>
<td>B</td>
</tr>
<tr>
<td>1855</td>
<td>5,000,000</td>
<td>102.68%</td>
<td>5,131,230</td>
<td>102%</td>
<td>4.6%</td>
<td>3.9%</td>
<td>Crimean war</td>
<td>Egyptian tribute, customs-Izmir, Syria</td>
<td>B</td>
</tr>
<tr>
<td>1858</td>
<td>5,000,000</td>
<td>76.00%</td>
<td>5,487,500</td>
<td>74%</td>
<td>6.6%</td>
<td>8.1%</td>
<td>Support the exchange rate Istanbul,Constantinople, Syria</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>1860</td>
<td>2,007,220</td>
<td>62.50%</td>
<td>1,273,262</td>
<td>62%</td>
<td>6.6%</td>
<td>9.6%</td>
<td>Budget deficit</td>
<td>Indirect contributions</td>
<td>F</td>
</tr>
<tr>
<td>1862</td>
<td>8,000,000</td>
<td>68.00%</td>
<td>5,440,000</td>
<td>68%</td>
<td>6.6%</td>
<td>8.8%</td>
<td>Withdrawal of the Korean</td>
<td>Taxes on tobacco, salt, staples, profits</td>
<td>B</td>
</tr>
<tr>
<td>1863</td>
<td>8,000,000</td>
<td>71.00%</td>
<td>5,880,000</td>
<td>71%</td>
<td>6.6%</td>
<td>8.5%</td>
<td>Repayment of debt</td>
<td>Customs, salt, olive oil, tobacco, salt tithes</td>
<td>F</td>
</tr>
<tr>
<td>1865</td>
<td>6,000,000</td>
<td>66.00%</td>
<td>3,660,000</td>
<td>66%</td>
<td>6.6%</td>
<td>9.1%</td>
<td>Repayment of debt and Budget deficit</td>
<td>Ergani mines</td>
<td>F</td>
</tr>
<tr>
<td>1866</td>
<td>36,303,036</td>
<td>50.00%</td>
<td>18,181,818</td>
<td>50%</td>
<td>6.6%</td>
<td>10.0%</td>
<td>Repayment of 1854 loan</td>
<td>General debt</td>
<td>F, B</td>
</tr>
<tr>
<td>1869</td>
<td>22,222,222</td>
<td>54.00%</td>
<td>12,000,000</td>
<td>54%</td>
<td>6.6%</td>
<td>11.1%</td>
<td>Repayment of debt and Budget deficit</td>
<td>Tithes from various vilayets</td>
<td>F</td>
</tr>
<tr>
<td>1870</td>
<td>31,688,001</td>
<td>32.13%</td>
<td>10,177,009</td>
<td>32%</td>
<td>6.6%</td>
<td>9.3%</td>
<td>Rumeli railway</td>
<td>General debt</td>
<td>A, G</td>
</tr>
<tr>
<td>1871</td>
<td>5,700,000</td>
<td>73.00%</td>
<td>4,161,000</td>
<td>73%</td>
<td>6.6%</td>
<td>8.2%</td>
<td>Budget deficit</td>
<td>Egyptian tribute</td>
<td>B, F</td>
</tr>
<tr>
<td>1872</td>
<td>11,126,200</td>
<td>96.50%</td>
<td>9,000,000</td>
<td>83%</td>
<td>6.6%</td>
<td>10.6%</td>
<td>Budget deficit</td>
<td>Revenue from Salerno, Qala, Dambo, sheep tax of Anatolia</td>
<td>B, A, G</td>
</tr>
<tr>
<td>1873</td>
<td>11,465,459</td>
<td>55.00%</td>
<td>6,306,000</td>
<td>55%</td>
<td>5.6%</td>
<td>9.1%</td>
<td>Consolidate the treasury bonds issued in 1872</td>
<td>General debt</td>
<td>F, B</td>
</tr>
<tr>
<td>1875</td>
<td>27,777,780</td>
<td>54.00%</td>
<td>15,000,000</td>
<td>54%</td>
<td>6.6%</td>
<td>11.1%</td>
<td>Budget deficit</td>
<td>Revenue from Aleppo, Damascus and animal tax of Anatolia</td>
<td>F</td>
</tr>
<tr>
<td>1874</td>
<td>40,000,009</td>
<td>45.30%</td>
<td>17,000,000</td>
<td>45%</td>
<td>5.6%</td>
<td>11.5%</td>
<td>Floating debt</td>
<td>General debt</td>
<td>F, B</td>
</tr>
<tr>
<td>1877</td>
<td>5,000,009</td>
<td>52.00%</td>
<td>2,600,000</td>
<td>52%</td>
<td>5.6%</td>
<td>9.0%</td>
<td>1877 Russian War</td>
<td>Egyptian tribute</td>
<td>F</td>
</tr>
</tbody>
</table>

A=Austria, B=Britain, F=France, G=Germany, I=Italy. Source: Annual Reports of the CFB; Kıray, 1995; Pamuk, 1994; Suvla, 1966.
Table 2.1 illustrates the original amount of issue, the issue rate, and the nominal/effective interest rates on the Ottoman bonds issued by the government in 1854–77. As observed from the table, most Ottoman bonds were issued at significantly lower rates than their nominal value with the exception of the second loan in 1855.

As the Empire’s credibility declined in the markets, the underwriters charged larger risk premiums. Thus, in some cases the amount acquired by the government fell below 50 percent of the amount of debt incurred by bond issues (in 1870 and 1874) and effective interest rates rose to around 11.5 percent. Moreover, at each loan the Ottoman government saw itself obliged to pledge the most productive of its remaining sources of revenue. The surplus of the Egyptian tribute, the sheep tax, customs revenues, the tobacco revenues, the copper mines and various other tithes, were all hypothecated one by one to the different issues.

As noted by the European press the process was very similar to ‘the shifts of a ruined family, where every article of value follows each other to the pawnshop’.41 Particularly after the 1860s the Porte had difficulty in finding acceptable securities to be pledged for new bonds, and issued treasury bonds secured on the general revenues of the Empire. These bonds could be issued in larger amounts since there was no need to pledge special revenues. However, they also carried significantly higher effective interest rates. Since the Empire had already exhausted its attractive collaterals the only alternative way to raise another loan was to improve the general credit of the treasury by creating new commitment mechanisms through new institutional arrangements.

Institutional arrangements to improve the credit of the Empire in the pre-OPDA era

There are two conditions for a state to be able to borrow from the domestic market at reasonable terms. First, national savings must reach a sufficient level and secondly, the holders of these savings must have confidence in the state. As argued before, in the Ottoman Empire neither of these conditions existed. To acquire foreign loans, on the other hand, the borrowing country must show some effective guarantees of its capacity for future repayment. In the Ottoman case, a budget system, which was part of the 1839 reform program, had not as yet been established by the Porte. The existing accounts of the treasury were unreliable and it was extremely difficult for creditors to monitor these
accounts. Therefore, it was very difficult for the government to issue loans secured on the general revenues of the treasury. In other words, special revenues had to be pledged as collateral. The more liquid and monitorable the collateral, the more confidence it would command in foreign markets. Moreover, the collateral had to be easily and costlessly seizable by the creditors in case of default, otherwise it would not be very credible. Hence, when the revenues of the treasury are considered, the tributes were probably the most attractive collaterals, both in terms of stability and liquidity. In this sense, the Egyptian tribute was a practical solution to these problems but it was already re-mortgaged to guarantee bond issues during the Crimean War. The customs revenues of Istanbul and Izmir were also among the attractive collaterals, but had already been used to raise the loans in 1855 and 1858. For every attempt to raise a new loan the Porte had to rely more on less attractive collaterals. This led to a reluctance amongst investors to lend money to the Porte and gave rise to high-risk premiums associated with uncertainty. Following the 1860s, the Porte initiated several institutional reforms in order to improve the credibility of the government.

**Budget reform and European concerns about the reliability of the Ottoman financial records**

In the 1850s very little was known in the European markets about the state of the Ottoman finances. Ambassadors sometimes reported back to their governments about the economic condition of the country. However, the information they could obtain was very limited and the reliability of the figures was often questionable. Moreover, this information hardly reached the small investors, and when it did it was usually through a couple of lines in the newspapers along with some other inaccurate information rarely substantiated with numbers.

On the other hand, with each loan the markets became more doubtful about the state of the Ottoman finances. Consequently, effective interest rates on these loans (with the exception of the 1855 Tribute loan officially guaranteed by the British and French governments) were steadily climbing. For the 1860 loan rates of the issue had plunged to 62.5 percent, and the effective interest offered by the government had reached 9.6 percent. Moreover, in the very same year the government had attempted to raise another loan, contracted by the infamous French banker Jules Mirés, which had failed because of the French government’s refusal to allow the loan’s quotation on the French Bourse. These were all signs of
the erosion of the Porte’s already limited financial credibility. The first Ottoman budget was prepared under these adverse conditions by the newly appointed Grand Vezir Fuat Paşa in advance of the financial year 1860–61. Fuat Paşa was convinced that to access further loans with lower interest rates the Porte had to restore its credibility in the foreign markets. He therefore initiated a series of reforms in this direction and the establishment of a budget system was at the top of the list.

However, the Ottoman budget system remained short of fulfilling the expectations of foreign investors as budgets were nothing more than vague estimations of expected revenues and expenses of the state. In 1862, after a long investigation, Mr Foster and Lord Hobart reported to the British Parliament that the Porte itself simply had no means of obtaining accurate information about its receipts and expenditures. As late as 1885, Vincent Caillard, the president of the OPDA, wrote ‘The state accounts are rarely, if ever balanced. The budgets, drawn up at the commencement of each financial year, are mere approximate estimates, never revised at the close of the year, but left to work themselves square by a kind of process of evolution.’

According to Caillard, the Turkish budget system illustrated ‘the evils of the financial decentralization in their most aggravated form’. The Ottoman Empire was divided up for administrative purposes into 31 vilayets (provinces). The local budgets of these vilayets were prepared by the local officials. Later on, they were sent to Istanbul for the approval of the government and to be corrected if necessary. Finally, the Imperial budget was constructed from these local budgets provided by the provinces. One common principal-agent problem that arose during the preparation of budgets was the strategic reporting of the local authorities. It was habitual for the local authorities to understate their revenues and overstate their expenditures, for the following reasons. First, knowing that the Imperial Treasury would increase its demands on their revenues, they wanted to retain sufficient funds to run their administration. Second, they aimed to avoid being flooded with cash demands by the central government, and to make provisions for future calls on their resources. Hence, the government itself had no accurate data at its disposal by which trustworthy conclusions could be drawn as to the real state of the finances of the Empire.

Also, the common use of havales (drafts) for the repayment of loans to creditors and contractors made the system very complicated to monitor
for the bondholders as well as for the Ministry of Finance. **Havales** were the payment orders delivered by ministers to pay the state bills when the ministry was short of cash. These payment orders were issued on the revenues of different provinces, and were often negotiated at a considerable discount to the recipient. Blaisdell notes that favoritism among ministers and between ministers and creditors created the gravest abuses in the *havale* system. 50 Therefore, even the Ministry of Finance found it impossible to come up with an accurate estimate of total state expenses for the coming year.

Another major complaint regarding the reliability of the Ottoman budgets was that there was virtually no control mechanism over the borrowings of the sovereign and his use of the proceeds.51 The private budget of the Sultan was not included in the state budget. It was under the control of a minister responsible only to the Sultan and required to obey the Sultan’s orders in order to maintain his post.52

Under these conditions of uncertainty, the Ottoman government often exaggerated its revenues and underreported its expenditures to enable it to borrow from the international markets at lower rates.53 On the other hand, European newspapers constantly protested that the government allowed budgets to stand in place of yearly financial accounts, and pointed out that no reliance could be placed on the figures shown in the budget. As argued by the investors, the newly issued budgets were of little use without the past budgets and the final accounts for the respective years, which were required to assess the accuracy of the estimates in the budget.54

**The National Bank Concession and the establishment of the BIO**

Another item in Fuat Paşa’s reform program was the national bank concession. In 1863, after three failed attempts to create a national bank, the Ottoman government granted a concession to the BIO (La Banque Impériale Ottomane).55 The first attempt had been in 1853. The concession was granted to the Ottoman Bank, but it failed due to the Crimean War. The second one, the INBT (Imperial National Bank of Turkey) concession in 1856, collapsed due to the deterioration of the financial conditions in Europe in the winter of 1856–57 before the bank commenced its operations. The third concession was granted to an Anglo-Greek consortium, NBT (National Bank of Turkey), in 1859, which required the withdrawal of *kaimes* from the market at least three months before the bank commenced its operations. The concessionaires inserted this clause to the concession because they argued that if other forms of
money remained in existence, the monopoly on the note issues, the most important privilege of the bank, would be meaningless. Furthermore, withdrawal of kaimes required the raising of a new loan large enough to wipe out the progressively depreciating currency. However, the lack of confidence both in the domestic and foreign markets was the main reason behind the government’s consent to the establishment of a national bank controlled by foreign bankers. The growing financial difficulties of the government made it impossible to withdraw kaimes in the following years. Instead, in 1861, after a failed attempt to raise a new loan in the foreign markets (Mirès Loan in 1860), the government again resorted to kaimes and issued a record amount of paper currency. Consequently, kaimes flooded the markets and the exchange rate against the gold lira plunged to 400 paper piastres – causing a major wave of inflation. Hence the national bank concession failed once again. The Ottoman government tried to break out of this impasse with the fourth concession.

Under the Convention of 1863, the Anglo-French concessionaires were granted the privilege of establishing a state bank in the Ottoman Empire, which was to bear the name BIO. All senior officers and most shareholders of the bank were foreign. Concerned about the possibility of foreign interference, the Porte underscored that the bank was bound to operate in accordance with Ottoman law, which meant it could not enjoy capitulatory status.

Government’s involvement in the management of the bank was one of the major issues during negotiations. This role was to be kept to a minimum in order to command confidence in the European money markets. In other words, the ‘bank could be of service to the state if it was entirely independent of the state’. Hence, the Porte was obliged to accept a role for its representatives that would be little more than maintaining the appearance of an Ottoman element in the hierarchy of the bank. The government would also appoint a nazar (minister) for inspection purposes and a muhassebeci (accountant) to supervise the financial operations between the bank and the treasury, but take no part in the actual running of the bank.

The functions and privileges granted to the BIO could be summarized as follows:

1. The most important privilege of the BIO, and the major reason behind the consortium’s demand for the concession, was the exclusive privilege of issuing notes. Through this privilege the bank would obtain an
interest-free loan from the public for the difference between the amount in circulation and the specie required to be held in reserve. Although it was often misinterpreted, only in the case of the issue of paper money was the bank granted a monopoly.61

2- The bank would also keep the accounts of the government in Istanbul. It was charged with handling the operations of the treasury, collecting the revenues and making the payments ordered by the Ministry of Finance. Outside the capital, where it had branches, it would collect the revenues assigned to it. However, the proportion of the government revenue handled by the bank remained far below initial expectations.

3- The BIO would also provide the government with cheaper short-term credits, through the sergis issued by the Ministry of Finance. This practice, the government hoped, would end the reliance on the Galata Bankers. The amount of sergis, previously issued by each ministry, would be fixed monthly in agreement with the bank and only be issued by the Ministry of Finance. The advances would be secured by the government revenues assigned to the bank. Since the securities against which the advances were to be provided would be unimpeachable, the credits would carry a relatively lower interest.

4- The BIO would act as the financial agent of the government both inside and outside the Empire charged with servicing domestic and foreign debt payments, and raising new loans. In return, the BIO would receive 1 percent commission on the sums handled, in addition to an annual fee of LT 20,000.

The national bank concession granted to the BIO, an Anglo-French consortium, helped the government to raise three loans in 1862–65, contracted by the bank. In 1862, the government raised a loan to withdraw the kaimes from the domestic market before the bank commenced its operations. The original amount of the loan was £8 million, the issue rate was 62 percent and the effective interest was 8.8 percent. In 1863 and 1865, the Porte signed two other contracts for a total of £14 million with effective interest rates of 8.5 percent and 9.1 percent respectively.62 After the failure of the Mirès Loan in 1860, the government’s reform attempts had once more provided access to the international markets. According to Eldem, ‘the mere presence of this institution [the BIO] in a country that had lacked any permanent and formal representation of Western financial interests was sufficient to give a sense of security to European investors, already reassured by the success of the 1862 loan’.63 However, the risk premiums on these loans were still
considerably high. The level of spread between the yield of British consols and that of the Ottoman bonds during the period suggests that the reforms might have provided some sense of security to foreign investors, thus enabling the Porte to raise new loans. Yet, the credibility of the reforms was still being questioned in financial circles.64

The 1874 reform program

In 1874, the government was unable to borrow from the Galata Bankers even at interest as high as 25 percent.65 The credit of the Empire was no better in foreign markets. So far, the coupons of various loans had usually been met at maturity. As early as 1866 the payment of general debt coupons had been deferred for two months, followed by a failure to maintain provisions for the charges on several foreign loans during 1871. Subsequently, a proportion of the coupons had remained unpaid.66 However, rumors of bankruptcy began circulating in the European markets. It was often argued in the newspapers that the country’s finances were finally exhausted, the budgets were untrustworthy, nobody knew anything about the condition of the Empire’s exchequer, and the administration was corrupt and totally uncontrolled in matters of finance.67 The credit of the Empire plunged to its lowest level so that, at one point in 1873, bonds of 6 percent had become unsellable at 46 percent of their face value.68

In a period characterized by mounting political problems and loss of power in the international arena, the Porte’s main and immediate concern was accessing external funds on the most favorable terms in order to finance the modernization of the army. For this purpose, it initiated several reforms. However, as observed after the budget reform, instead of preparing a reliable budget that would secure the confidence of the financial circles in the long term, the government chose to overstate its revenues in order to secure loans with lower risk premiums. In the short term these budgets helped the Porte to raise additional loans, but in the long term, as more investors questioned their reliability, they contributed to the further erosion of the Porte’s credibility. This generated a need for the Porte to compromise its autonomy by delegating some of its financial responsibilities to third parties who could command confidence in European financial circles. This was the main logic behind the 1874 reform program.
In 1874, desperately needing to improve its credit in the financial markets, the government resorted to drastic measures, which meant further compromising its financial autonomy. These measures included the establishment of a financial commission to control the Imperial budget and the extension of the BIO’s privileges, which made the bank responsible for the supervision of the state finances.

In order to improve the credibility of the Ottoman budget, the government set up a commission to control and approve the 1874–75 budget. The commission comprised the principal functionaries of the state, bankers and directors of the leading financial establishments in Istanbul. Out of thirteen members of the commission, only three held government posts. All the rest were leading figures from Istanbul’s banking community, some of whom were very well known in the European financial markets, including the General Director of the Ottoman Bank and the bank’s two other directors. As far as domestic financial businesses were concerned, these were the very people who needed to be convinced that the government was going to eliminate its budget deficits. Furthermore, the government was relying on the reputation of these figures outside the Empire.69

The commission was well aware that the Ottoman government’s bad reputation was common knowledge among European investors and posed a major obstacle to the success of any kind of economic reform. For this reason, they attached special importance to public relations. Following approval of the 1874–75 budget, the commission issued a report, to be published in major European journals. The report argued that ‘successive adverse circumstances’ had discredited the Empire’s finances, but its negative reputation was not justified by the facts. The commission claimed that they would reveal the truth about Turkish finances and regain the confidence of European investors: ‘a complete and truthful statement of the financial situation, even in its most unfavorable details, is the only means of inspiring well-founded confidence’.70

Another measure taken by the government for issuing a new loan was the consolidation of the BIO’s privileges as a state bank. According to the convention signed between Sadık Paşa and BIO administrators on 18 May 1874, the bank would be the ‘treasurer and the paymaster of the Empire’. As such, it would take over the finances of the Empire. In this context, all the tax revenues of the government both in Istanbul and the provinces would be deposited into a nearby branch of the BIO, which would extend
its branch network. Likewise, the BIO was charged with making all payments on behalf of the government, including the debt service.71

Hence, in spite of the increasing debt burden and the risks associated with it, the Ottoman government managed to raise another loan of £40 million in the British and French markets, with the help of the new reform program.72 The 5 percent bonds were issued at 43.5 percent of their face value on average, and the effective interest was about 11.5 percent, which was the highest rate in the history of Ottoman foreign borrowing. Still, considering the economic difficulties of the Empire, and the fact that no special hypothecations were made for the loan, the issue was interpreted as a 'success' in the European press.73

Although they helped the government to raise another loan, the high rate of effective interest suggests that the reforms, which entailed the establishment of an independent financial commission to control the Imperial Budget and the delegation of tax collection to the BIO, did not satisfy the European bondholders. First of all, the credibility of a commission consisting of bankers whose interests were intertwined with those of the Porte was questioned by the bondholders. After all, these bankers were the largest domestic creditors of the government and had vested interests in the issue of the new loan, which would be used mainly for the payment of the short-term domestic debt. The frequent use of this argument demonstrated the eroding confidence of the European investors in the administration of the BIO, the largest domestic creditor.74 As the bankruptcy of the government drew near, the conflict of interest between the bank and foreign creditors became more and more apparent:

> With all respect to the English members of the Commission individually, we do not think the composition of it is in any way satisfactory. The object being to inform English creditors of the true condition of Turkish finance, it must surely be evident that certificates of soundness from a commission composed of Turkish officials, Constantinople bankers, and the directors of establishments identified justly or unjustly, in the public mind with the interests of the Turkish government, cannot be worth the paper they are written upon. If the Turkish government is to gain authority for its budgets at all, the commission appointed to report should consist of English financiers of repute, if possible with a parliamentary reputation, and above all known to be independent by the mass of English creditors of Turkey.75
The BIO building in Karaköy, Istanbul University (IU), Nadir Eserler Kütüphanesi, 90839-0043.
The convention between the government and the BIO was another factor that helped raise public expectations in Europe regarding the future of the Empire. Some newspapers welcomed the extension of the privileges of the BIO, as a bank governed by Europeans who were acquainted with European accounting techniques such as double-entry bookkeeping. Moreover, the convention was regarded as a guarantee that the government was sincere in its wish for sound reform. However, authorities also warned investors to be cautious when investing in Ottoman securities. First, the BIO did not have any absolute power to check the extravagance of the government or to prevent peculation and extortion by revenue collectors. Secondly, this could be just another desperate attempt by a government on the brink of bankruptcy to persuade investors to issue another loan. The proposed supervisory role of the BIO would require an extensive network of branches in the provinces, which the BIO did not have. Hence, it would take a while before the convention was put into practice, and it could be canceled after the issue of the loan. Future developments confirmed these warnings: the convention was never completely practiced as originally envisaged because of the default in 1875 and the ensuing political crisis.

**Ottoman borrowing during the default period: 1875–81**

The unproductive use of external resources for the import of military goods or for consumption by the state bureaucracy during the 1860s resulted in a growing debt burden. As a result, in the 1870s the Ottoman state had severe debt service problems. The economic conditions of the Empire worsened further in 1875. The annual harvest had been extremely poor in several provinces and the government was compelled to provide food to prevent famine. This was followed by severe floods and an outbreak of disease in several provinces. Consequently, the tithes and other tax revenues remained far below the Porte’s expectations. The cost of dealing with the insurrection that broke out in the Balkan provinces further aggravated the situation.

Under these circumstances, the Porte attempted to issue another loan in foreign markets. Yet, it was hard to find an acceptable security with a reliable yield not pledged to former creditors. Hence the only alternative available was to issue another loan on the general revenues of the treasury for which no special security had to be shown. Following the establishment of the BIO, the Porte had increasingly resorted to these
treasury bonds, taking advantage of the credibility of the BIO in the financial markets. Still, the effective interest yields of these bonds were considerably higher than the others. After some consultations with the possible contractors, it became apparent that the issue price of the loan would be around 34 percent – a rate that had previously been refused by the government – or even less.81

On 6 October 1875 the Grand Vezir Mahmut Nedim Paşa issued a public statement declaring partial default on interest payments of the foreign loans: ‘in the presence of a budget deficit of five million (L.T), it (the Porte) has decided to pay only the half of the coupons...’.82 In April 1876, after the partial default, the Porte declared a total default, suspending all the interest payments on the foreign loans, except the 1855 Loan guaranteed by the British government, which continued to be paid in full. By the time the government unilaterally decided to freeze interest payments, more than half of its revenues were committed to the debt service.83

Following the default, bondholders started to organize in order to exert pressure on the Porte through their governments. Creditor governments were quick to protest the unilateral suspension of the debt service. The default was also heavily criticized within the Empire. Several prominent figures of the time questioned the reasoning of Nedim Paşa in declaring a default unilaterally, without even attempting to renegotiate the terms of the debt contracts with creditors. Cevdet Paşa criticized the default decision, arguing that Nedim Paşa had not only isolated the Empire from Europe, but also created negative public opinion about the Ottomans in a period when the Empire was facing great military threats particularly from Russia. Hence, Cevdet Paşa argued, the default decision had alienated the former allies of the Empire and benefited no one other than Russia. Some writers went even further and accused the Grand Vezir of treachery, arguing that the Paşa was serving Russian interests, not those of the Empire.84

Amidst the continuing disunity among the bondholder committees, the Porte managed to borrow both from domestic and international markets, which undoubtedly enabled the country to survive the Russian War and delay debt renegotiations. The following section analyzes government borrowing in the default period resulting from the lack of coordination among the Ottoman bondholders, and aims to explain the reasoning of the relevant actors.
Foreign borrowing during the default: Tribute bondholders and the defense loan of 1877

When the Ottoman Empire declared itself bankrupt, a portion of its loans were secured on the hypothecation of special revenues while the rest were secured on the general revenues of the treasury. The Egyptian tribute loans, the loans of 1854, 1855 and 1871, represented the former case. These loans also had a peculiar advantage compared to other hypothecated loans since their security was directly deposited from Egypt to the Bank of England without passing through the Ottoman Treasury. After the default, the Khedive of Egypt continued to send the tribute to the Bank of England. To avoid any government interference, the Ottoman government continued to make payments on the 1855 loan which was guaranteed by the French and British governments. Yet, the Porte insisted that the general law that reduced the interest on all loans to one half was applicable to the bondholders of the 1854 and 1871 tribute loans. Hence, after the payment of the 1855 loan was made, the remainder of the tribute remained locked up in the Bank of England, which refused to give the money back to the Ottoman government, but also could not hand it over to the bondholders without the official order of the Ottoman ambassador.85

The Ottoman default raised controversy both among the tribute bondholders, and between the bondholders and the British government. The 1854 loan was issued to cover military expenses during the Crimean War. The British government of the time, as an ally of the Empire during the war, had publicly announced its favorable opinion of the loan, yet had never issued an official guarantee. The bondholders of the 1854 loan always held the government morally responsible for the issue of the loan, and maintained that they were also entitled to its support.86 The following letter written by one of the 1854 bondholders sums up the basis of their claims.

I am the widow of one of her Majesty's officers with four children, and I found myself in October, 1875 with the little all of my fatherless children invested in the Turkish 1854’s money was placed in this loan not as a speculative investment …, but because it was considered a sound investment for the following reasons: 1. The money was raised and spent to enable the Queen’s ally to keep his armies in the field against the Queen's
enemies. 2. Lord Clarendon, the then Foreign Minister, recommended the loan to the public in an official memorandum from the Foreign Office, dated Aug.15, 1854.87

The 1854 bondholders, as the first mortgagees of the tribute, also argued that the holders of the 1855 loan had no right to the balance of the tribute until their payments had been fully repaid.88 On the other hand, the 1871 bondholders contrived to place themselves on an equal footing as they also had claims to the tribute money.89 The British government argued that its liabilities were limited to the 1855 loan that had been officially guaranteed by the government and hence rejected the requests for government interference for any other loan.

Consequently, the holders of the tributary loans of 1854 and 1871 formed the Tribute Bondholders League to start negotiations with the Ottoman government. The aim of the league was to convince the Porte to release the tribute held in the Bank of England, and secure the debt service in the future.90 On the other hand, the Council of Foreign Bondholders (CFB), representing other Turkish loans, was pressing for a general settlement. The CFB aimed to form a committee under its leadership that would unite the interests of all classes of bonds in one body to avoid the 'possibility of any conflict or disunion'.91 However, the holders of the tributary loans objected to a general settlement and argued that placing their interests in the hands of the CFB, which was also occupied with the general interests of all other Turkish loans, would weaken their privileged position.92 The Tribute Bondholders League was determined to remain out of the general schedule, and to be ranked in a special category. They claimed that the attempts of the CFB to 'melt the tribute bondholders in the hotchpotch of Turkish bondholders', ignoring their privileged position, would favor the bondholders possessing no such security.93 Hence, the tribute bondholders decided to pursue an agreement on their own.

As far as the Porte was concerned, the conditions were quite favorable for a partial settlement. Particularly after the outbreak of the Russian War in 1877, the Porte was anxious to make a new bargain with the tribute bondholders. The government had once again resorted to the issue of kaimes to finance the military campaign. Nevertheless, the resulting inflation had already begun to cause political disturbances. The treasury was desperately in need of new resources to finance the war, and to make some payment to the local bankers to keep them lending to the government. Therefore, the Porte aimed to get the creditors to agree to a
reduction in the originally agreed terms of the loan payments and raise another foreign loan upon the security of the remainder of the tribute. Only with their consent would the Bank of England release the portion of the tribute that remained locked up. For a government in default, this was also the only way it could raise another loan in the foreign markets, since the Porte could not interfere with the payment of the Egyptian tribute.

The total amount of the tribute was £681,000, whereas the total interest and amortization charged on the tribute loans amounted to £859,000. Hence, for the full service of the loans, the government needed to find an additional £178,000 apart from the tribute. The initial offer of the bondholders was to accept less than what was legally due, so that the 1855 loan could be repaid entirely out of the tribute. However, the government asked for a larger concession to have sufficient surplus in the tribute to raise another loan. In July 1877, a compromise was arrived at fairly easily between the government and the representatives of the bondholders. Soon after, the Ottoman government issued a new loan secured upon the £280,623 per annum tribute released after the reduction of interest on 1854 and 1871 loans.

The Ottoman Defense Loan, as it was called, was issued by the BIO and Glyn Mills, Curie and Co. in Britain and France. The original amount of the loan was £5 million, the issue rate was 52 percent, and the effective interest rate was 9.6 percent. The defense loan had obviously been very costly, considering that debt service had been secured in the best possible manner. However, the bond was not quoted at the stock exchange due to the continuing defaults, and bonds of a bankrupt, militarily imperiled state were not attractive enough to investors.

The agreement between tribute bondholders and the Porte infuriated the other bondholders and the British press. 'So long as Turkey is a defaulter, even to its unsecured creditors, all attempts to borrow must fail', noted a British newspaper. Another added, 'though it [The Porte] ate its cake long ago, it would very much like still to have it'. While some bondholders repeated their demand for government interference, others, once more, urged the bondholders of all groups to unite in an effort to achieve a resolution. Obviously, the bondholders had lost a golden opportunity to force the Porte, which was in desperate need of new funds, to a favorable settlement because of the lack of coordination between the bondholders.
Domestic borrowing in the default era: Revival of the Galata Bankers

After the default, the Porte once again resorted to the notorious kaimes as a means for domestic borrowing. The issue of kaimes continued throughout the Russian war (from September 1876 to January 1878), and the government issued over LT 10 million of kaimes.100 Once again, the government was faced with a precipitous decline in the value of the kaime. As illustrated in Figure 2.1, the exchange rate of Ottoman lira against kaime rose from Ps 106 in August 1876, to Ps 178 in August 1877, and to Ps 291 in August 1878. The sharp depreciation of kaime eroded the confidence in these banknotes.101 Sarrafs refused to change the currency at the official rate, shopkeepers were reluctant to accept it, and even when they did they charged very high rates. Moreover, it led to unrest both among the civilians and the soldiers who were paid in kaimes. Therefore, by the summer of 1878 this alternative was simply exhausted, and no further additions were made to the circulation. With the military situation becoming increasingly grave, the government sought new alternatives.

Figure 2.1 Exchange rate of Ottoman lira against the kaime: 1876-78

During the period of foreign borrowing (1854–75), the Galata Bankers had lost their privileged position and their role in the government finances was reduced considerably, to one of furnishing the government with short-term loans between major bond issues in the European financial markets.102 During the years of default when the Porte was excluded from
the international financial markets (with the exception of the 1877 loan), the government increasingly relied on domestic borrowings from Galata Bankers and the BIO.

Pamuk points out that during the Russian war in particular these bankers ‘adopted a variety of patriotic Ottomanist themes to mobilize support for their centuries-old customer during this difficult period’. However, behind this patriotic discourse lay the vested interests of the Galata elite in the territorial integrity of the Empire. The risks involved in lending to a government that was already bankrupt and fighting a difficult war were clearly great. Yet these bankers were already owed a considerable amount of money and had a great deal to lose if the Empire were to be dismembered. In such a case, the interests of the bondholders might be safeguarded by the great powers during the peace settlement, but it was very unlikely that the local bankers, who were known in Europe as the ‘Galata Vampires’, would receive much consideration. Evidently, if they did not take further risks by lending the government they could eventually end up losing everything. Moreover, during the period, the bankers took advantage of the isolation of the Empire from the international markets and charged up to 24 percent interest on their short-term advances.

Finally, as discussed before, the Islamic inheritance system hindered the development of durable and large partnerships, which meant that private enterprises in the Empire tended to remain small in comparison with their European counterparts. Due to their small size, the credit needs of these enterprises were very limited. Consequently, the bankers in the Empire were almost completely specialized in dealings with the government, and as argued by Clay, they ‘did not have any other form of business to fall back on’.

The Bankers’ Convention and the Administration of the Six Indirect Revenues

During the period of default, the loans of the bankers made it undoubtedly more difficult for the European investors to force the Ottoman government to reach a new settlement. On the other hand, the Galata Bankers not only enjoyed high returns on their advances, but also gained priorities on the debt services of the Empire. In January 1878 the Ottoman Empire and Russia signed the Treaty of San Stefano, which ended the war. However, there was still a threat of a new war, this time with Greece, over the rectification of the border. The Porte sought a new
loan in the domestic market for the military preparations. The Galata Bankers once again made advances to the government under very stiff terms, and the most lucrative sources of state revenue, such as customs and indirect revenues, were pledged as security. This process led to the establishment of the Administration of Six Indirect Revenues (ASIR), Rüşümü Sıti İdaresi, a forerunner of the OPDA.

On 22 November 1879 the Porte signed a convention with the Galata Bankers (including the BIO as the largest domestic creditor), who had made advances to the government amounting to LT 8,845,000 partly secured on the Istanbul Customs. According to the convention, the bankers would make an additional advance of LT 120,000, and give up their rights on the customs revenues. Hence, they would agree to accept the reimbursement of their advances on the customs over a considerably longer period than under the existing contracts. In return, the local bankers and the BIO would be entitled to administer and collect the six indirect revenues (the revenue from salt, tobacco, spirits, and stamp taxes as well as the silk tithes of Istanbul and Bursa and fish tax of Istanbul and vicinity). Galata bankers and the BIO had the first call on LT 1,100,000 of the revenues for interest at 8 percent on these advances, and for their redemption. The remainder would be appropriated to the payment of foreign debt. The arrangement would remain in force for ten years and, being merely provisional, it was declared that the rights of the foreign bondholders would be left intact.

This arrangement between the government and local financiers raised protests from European bondholder organizations, particularly from the ones representing the four loans secured on the customs and the indirect revenues (1858, 1860, 1862 and 1863 loans), who called for government intervention. The local bankers, particularly the BIO, were held responsible not only for lending to a government in default but also claiming priority over the revenues that had previously been pledged for their loans. The bondholders of the 1862 loan, which was secured on the indirect contributions, called the agreement a ‘shameless act of financial dishonesty’. According to the bondholders, it was morally and legally unacceptable for the Porte to obtain advances upon the security of the 1862 loan, through the aid and cooperation of the BIO who were the agents of the 1862 loan. The bondholders of the General debt also criticized the convention and argued that they were offered a ‘miserable pittance’ in return for their loans. In March 1880, the protests of the
bondholders’ organizations were followed by diplomatic protests from the British and French governments.\textsuperscript{112}

The BIO, as by far the largest domestic lender and the major shareholder of the ASIR, was at the center of protests. The BIO defended itself by arguing that the advances made by the bank had enabled the Empire to live through a period when its survival was under threat. Thus, according to BIO officials, the Banker’s Convention had not violated the rights of the foreign bondholders on their collaterals or the sanctions imposed on the Ottoman Empire. On the contrary, the BIO had made a sacrifice to ensure the Porte’s fulfillment of its foreign debt obligations in the future.\textsuperscript{113}

In the meantime, foreign bondholder organizations offered alternative plans to break the convention and make a new debt settlement. In December 1879, Comte De Tocqueville, the representative of the Anglo-French bondholders Committee, arrived in Istanbul to protest the Bankers Convention and offered a large loan to break the convention and build a similar administration, the beneficiaries of which would be the foreign bondholders. However, the representative power of Tocqueville’s committee was limited and lacked the support of the influential CFB and the BIO, the largest domestic creditor. The Tocqueville scheme consequently failed to produce any result.\textsuperscript{114}

\textit{The lack of coordination among the Ottoman bondholders during the period of default}

Despite the existence of an organization such as the CFB, which aimed to organize foreign bondholders to exert pressure on the defaulting sovereigns, lending to sovereigns of the periphery entailed great enforcement problems in the nineteenth century. First of all, the main focus of the CFB was the British bondholders even though it also aimed to cooperate with other bondholder organizations in different European countries. Moreover, in cases where the bondholder groups had conflicting interests, the CFB failed to coordinate these different bondholder groups even within Britain. The state of disunity and the lack of coordination among the bondholder groups was one of the major problems in the enforcement of sovereign compliance with debt contracts. The lack of coordination among the bondholders not only allowed for new loans to defaulters but also raised the risk premiums on foreign loans. Enforcement problems in lending to the Ottoman government during the
pre-OPDA era can be better understood through a brief analysis of the experiences of the Ottoman bondholders during the period of default in 1875–81.

The default announcement of the Porte caught the Ottoman bondholders at a time when they were divided among different committees. All committees aimed to exert pressure on the Porte and their home governments to bring the Ottoman government to the negotiating table. However, they were divided with regard to the priority of each loan in the amortization of the Ottoman debt. The CFB, on the other hand, aimed to bring all these committees together under its roof for the purpose of a general and lasting settlement. The key part of the CFB plan was the conversion and unification of the Ottoman debt, which would reconcile the conflicting interests of the bondholders. The British press supported the CFB and warned the bondholders to put forth a ‘unified effort instead of losing themselves in sectional squabbles’.115

The conversion and unification of the Turkish debt will have an important effect on the political situation of the Ottoman Empire. Henceforth, the creditors of Turkey, instead of being split up into little coteries with diverse views and interests, will be a compact and homogenous body with one mind and one purpose.116

Despite the warnings of the press and the efforts of the CFB to unify the different bondholder groups, the process that led to the Decree of Muharrem proved to be a fairly complicated one, due to the difficulties that the bondholder organizations had in taking collective action. The main reason behind the lack of coordination was that the interests of all the bondholders were not identical because of the different characteristics of different bonds and, in some cases, conflicted with each other. Then again, unless they reached an agreement among themselves it would be hard to reach a satisfactory settlement with the Porte. The disunity among the bondholders not only enabled the Porte to play one group off against another but also provided the government with an excuse to do nothing at all.117

A major conflict of interest arose between the bondholders regarding the priority of each group of bonds in the rescheduling of debt service. As illustrated in Table 2.1, some portions of the Ottoman loans were secured on different collaterals, while the rest were secured on the general revenues of the treasury; thus, no special hypothecation was made. The
collaterals comprised more liquid, more profitable, relatively easily monitorable and/or administrable revenues of the Porte, such as the Egyptian tribute, customs revenues, mines and the monopoly revenues. The holders of the bonds that were secured on these special revenues did not want to share their collateral with other bondholders. Each group asked to be ranked in a special category as opposed to the holders of the ‘General Debt’ bonds. The ongoing discussions between the bondholders of the 1858 and 1862 loans – secured on the customs and the indirect revenues – and the General Debt bondholders is the most significant example, which also led to a major schism among British bondholders. The disagreement between these bondholders could not be resolved until after the signing of the Decree of Muharrem.

Similar disagreements also arose among holders of the hypothecated loans. For instance, bondholders with relatively easy access to the collateral pursued separate negotiations with the Ottoman government, such as the British holders of the bonds secured by the Egyptian tribute (1854, 1855 and 1871 bonds), which was routinely channeled through London. The tribute bondholders knew that the Ottoman government would avoid a general settlement, particularly while preparing for a major war. Moreover, even if the government was brought to the negotiating table, a general settlement would require them to make concessions from their easily seizable collateral in favor of other bondholders, particularly those of the General Debt, whose bonds were not secured on any specific revenue.

Another conflict of interest was among the bondholders whose bonds were secured on the same collateral. As one bond issue followed another, the Porte found it harder to find new collaterals that would command confidence in the foreign markets and, therefore, pledged the same revenues over and over again as security for different issues. Some attractive revenues, including the customs duties and the indirect contributions, were overstated in the budgets to convince the investors for a second mortgage. The most salient example of this kind of conflict took place among the tribute bondholders. After the default, representatives of each group had agreed on the distinctive character of their collateral and decided to negotiate with the Porte as the tribute bondholders' committee apart from the rest of the European bondholders. However, to start the negotiations with the government, certain concessions had to be made by the bondholders. Conflicts arose between the bondholders regarding the
priority of each group of bonds in the amortization process and the 
amount of reduction to be applied to each group. Nevertheless, the tribute 
bondholders eventually found common ground and made a new 
arrangement with the Porte, at the expense of other bondholders. The 
1877 Defense Loan was issued after the partial debt settlement agreed 
with the tribute bondholders, upon the security of the remainder of the 
Egyptian tribute. The CFB and other bondholders managed to block the 
government’s access to the London Stock Exchange or Paris Bourse, but 
the attractiveness of the collateral enabled the Porte to raise another loan 
in Britain and France. The British and French governments were reluctant 
to intervene during this process due to the strategic position held by the 
Ottoman Empire in restraining Russian expansion.

 Aside from the unity of the European bondholders, successful 
implementation of the sanctions required the cooperation of the local 
actors, the Galata Bankers and the BIO. However, these bankers had 
strong incentives in lending to the government. Now that the borrowing 
alternatives of the Empire were much more limited, these bankers could 
charge higher interests for their short-term advances than they did before 
the period of foreign borrowing. Obviously, lending to a government in 
default entailed greater risks as compared to the former period, but also 
gave the local bankers an opportunity to impose additional conditions on 
their loans. Thus, as these bankers continued to lend to the government 
they also gained rights on the collection and administration of the 
revenues that had previously been mortgaged for the foreign loans. As 
mentioned before, these bankers (including the BIO, an Anglo-French 
consortium) had offices in financial centers of Europe and often 
borrowed from abroad to lend to the government. Had foreign 
bondholders coordinated their efforts, they could have imposed costs on 
these bankers (such as damaging their reputation in the European 
markets) and consequently increased the cost of default for the Ottoman 
government.

 In November 1879, when the Porte issued the decree announcing the 
establishment of the ASIR, and granted the local bankers the right to 
collect and administer the ‘indirect revenues’ previously assigned to 
foreign bondholders, the foreign bondholders were divided into different 
organizations.

 Around 70 percent of the total outstanding Ottoman foreign debt in the 
pre-OPDA era belonged to either British or French investors. Despite 
the existence of an organization such as the CFB in Britain, the
cooperation between the bondholders was achieved fairly easily in France, as compared to Britain. There were several reasons for this. First of all, a significant proportion of the General Debt bonds, which were issued in 1865–1874 without any special hypothecations, were held in France. From the beginning the holders of these bonds, which made up 43 percent of the outstanding Ottoman debt after the default, argued in favor of a general settlement. Had the bondholders of the hypothecated loans pursued partial settlements and gained possession of their collaterals, almost all the liquid and easily administrable revenues of the Empire would be taken over by these creditors. Moreover, even though the proportion is not definite, it is understood that in France the banks held a considerable portion of the Ottoman bonds. Most of these banks held both secured and unsecured loans; therefore, it was not difficult to reconcile the interests of these bondholders.

On the other hand, in Britain the situation was more complicated. Despite the early efforts of the CFB to unify the bondholders of all groups, the bondholders were divided between organizations representing the conflicting interests of the different groups of bondholders. The first one was the Tribute Bondholders’ League, which had already reached a settlement with the Porte. The Khedive of Egypt, politically controlled by the British government, would continue to send the tribute directly to the Bank of England, and the Porte had given up all its rights on the tribute until the amortization of the bonds. Since their payment was secured in the most effective way possible in 1877, tribute bondholders had no interest in being part of a general settlement.

The second organization was the CFB representing the 1858 and 1862 bondholders. Their bonds were secured on the revenue of the customs and the ‘indirect revenues’, which were assigned to the Galata Bankers under the November 1879 Convention. Another important feature of these bonds was that they were almost exclusively issued and held in Britain. These bondholders asked for a special treatment for their special securities and protested at being ranked equally with the General Debt bondholders. The CFB, while arguing in favor of a general settlement in line with its original mission, also insisted on the protection of the privileges of the hypothecated bondholders. This led to division among the British bondholders.

The third bondholders’ organization was the General Committee of the Turkish Bondholders, mainly representing the holders of the General
Debt that was not secured on any special revenues. Since no securities were involved in any of these bonds, they found common cause with their French counterparts on the Anglo-French committee. This committee backed the unsuccessful Tocqueville scheme. Upon the conclusion of the November Convention between the bankers and the Porte, and the failure of the Tocqueville scheme, they again sought cooperation with the CFB and the bondholders of the 1858 and 1862 loans. ‘The various classes must see the inutility of continued selfishness, and resign themselves to equitable ideas’, Guedella, the chairman of the committee argued in his report. According to Guedella, the securities of the 1858 and 1862 loans should not have been a matter of argument since ‘not one of the dividends of the various loans had ever been paid out of the special securities hypothecated’. The debt payments for all loans were made entirely out of the general revenue or borrowed money. Furthermore, their ‘vaunted securities’ had been mortgaged over and over again for new loans. It was precisely by the mortgaging of these securities that the BIO and the Galata Bankers had made their advances to the government. The bondholders of the General Debt agreed with the CFB on the importance of forming a unified front to prevent the Porte from making further partial or special arrangements; and argued that ‘it was time for Turkey to make a comprehensive arrangement embracing the whole of the creditors’. However, while they argued for equal treatment of all issues, the CFB insisted on the protection of the privileges of the hypothecated loans.

Ottoman debt settlement and the Decree of Muharrem

The Ottoman default was followed by the hardships of the Russian war in 1877–78. As a defaulting government, the Porte had difficulty in borrowing from abroad, and with the exception of the 1877 loan, could not raise another loan from Europe. The government, desperately in need of new financial sources, once more turned to local bankers. The notorious Galata Bankers agreed to new loans under very tight conditions and very high interest rates. Nevertheless, considering the high interest rates and the limited financial resources in the domestic economy this borrowing pattern was unsustainable in the long run.

On the other hand, diplomatic pressures from the creditor countries had intensified after the adverse outcome of the Russian war. Subsequent to the signing of the armistice between Russia and the Ottoman Empire, foreign bondholders were concerned that the territorial losses of the Empire in the Balkans and the war indemnity demanded by Russia would
make it impossible for the Porte to resume the debt service. Diplomatic pressure on the Porte reached its peak after the Berlin Congress that was called by the European powers to reconsider the terms of the Treaty of San Stefano, which Russia had forced on the Ottoman Empire. According to the terms of the Treaty of Berlin, the newly independent Balkan states would be responsible for a proportionate share of the debt. Moreover, it was agreed by the Russian delegation that the prewar foreign debt of the Empire would have priority over the war indemnity demanded by Russia. Finally, the conference recommended to the Porte the establishment of an international committee that would supervise the resources of the Empire assigned to debt service. Thus, after the Treaty of Berlin, the Porte was concerned that unless a deal was struck with the bondholders, matters might be taken out of their hands and an international commission might be imposed upon them. The proposed commission would consist of representatives of the European powers and bring a definitive end to the fiscal and political sovereignty of the Empire.

From this perspective, the signing of the November Convention, which partially resumed the foreign debt service, was an attempt to escape from the proposed international commission. However, the arrangements made with the local bankers including the partial repayment of the coupons did not satisfy the foreign bondholder organizations. By the terms of the November Convention, local bankers had been granted an administrative role over the resources previously assigned to foreign loans as well as a priority in debt service. This was unacceptable for the foreign bondholders who protested the convention and lobbied for the implementation of the recommendations of the Treaty of Berlin.

Under these circumstances, the Porte’s concerns to reach larger credit markets and political pressure from the European governments led to debt renegotiations with foreign bondholders. At the invitation of the Ottoman government, negotiations between the Porte and the representatives of the Dutch, English, French, Austrian, German and Italian bondholders commenced in September 1881 in Istanbul. The negotiations covered all foreign loans apart from the guaranteed loan of 1855, and the Egyptian tribute loans of 1854, 1871, and 1877, the repayment of which had been guaranteed by previous arrangements. The negotiations also included the Ramazan certificates, delivered in exchange for the bonds drawn under the stipulations of the Decree of 6 October 1875. Including the lottery bonds, the outstanding amount in default was
£252,801,885 before the settlement. To give an idea of the magnitude of the debt, total estimated revenue of the treasury in 1874–75 made up around 9 percent of this amount, according to official statements. The crucial issue during the negotiations was the debt reduction, which was an essential requirement for a sustainable outcome. Even before the war the Empire had severe financial problems. After the Russian-Turkish war circumstances had worsened. The loss of territory and population, in Europe alone, was estimated at 82,000 square miles and 4.5 million respectively, and the loss of annual revenue in consequence was around £4.75 million. Moreover, there was the issue of war indemnity. According to the terms of the Treaty of San Stefano the Ottoman government had agreed to pay LT 350,000 to Russia as war indemnity.

Under these circumstances, a reduction in the principal of the debt was indispensable and this was recognized by the creditors even before the start of the negotiations. The issue of disagreement was the extent of reduction. After long negotiations, the mean between the proposals of the bondholders and the government was adopted and the principal was reduced to £96,768,278. To this amount, 10 percent of the reduced capital was added as interest arrears, making the total of the new debt £106,437,204 or LT 117,080,957. Thus, a considerable reduction would be made in the outstanding debt of the Empire. The details of the reduction are illustrated in Table 2.2.

The negotiations carried on in Istanbul between the Porte and its creditors were concluded on 20 December 1881, by the issue of the Decree of Muharrem. The decree sanctioned the establishment of a council of administration charged with the collection and administration of revenues assigned for the service of the foreign loans and the priority debt (loans of the Galata Bankers and the BIO). Under these terms, the revenue from the salt and tobacco monopolies, the stamp and spirits taxes, the fish tax, and the silk tithe in certain districts as well as the Bulgaria tribute, the revenue from Eastern Rumelia and the surplus of the Cyprus revenue were irrevocably ceded to the OPDA, until the debt was liquidated.
Table 2.2 Ottoman foreign debt before and after the Decree of Muharem

<table>
<thead>
<tr>
<th>Series</th>
<th>Loan</th>
<th>Outstanding principal including Ramazan bonds (£)</th>
<th>Arrears of interest including Ramazan certificates (£)</th>
<th>Total debt in default (£)</th>
<th>Total debt after the Decree (£)</th>
<th>Reduction in total debt (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1858</td>
<td>3,684,750</td>
<td>1,345,410</td>
<td>5,030,160</td>
<td>3,445,316</td>
<td>31.51%</td>
</tr>
<tr>
<td></td>
<td>1862</td>
<td>4,999,650</td>
<td>1,876,125</td>
<td>6,875,775</td>
<td>3,738,556</td>
<td>45.63%</td>
</tr>
<tr>
<td>B</td>
<td>1860</td>
<td>1,654,070</td>
<td>620,046</td>
<td>2,274,436</td>
<td>1,046,201</td>
<td>54.09%</td>
</tr>
<tr>
<td></td>
<td>1863-64</td>
<td>5,188,750</td>
<td>1,946,999</td>
<td>7,135,749</td>
<td>3,975,682</td>
<td>44.31%</td>
</tr>
<tr>
<td></td>
<td>1872</td>
<td>4,820,200</td>
<td>2,759,312</td>
<td>7,579,512</td>
<td>5,221,165</td>
<td>31.09%</td>
</tr>
<tr>
<td>C</td>
<td>1865</td>
<td>4,098,500</td>
<td>1,537,897</td>
<td>5,636,397</td>
<td>2,920,713</td>
<td>48.18%</td>
</tr>
<tr>
<td></td>
<td>1869</td>
<td>20,650,000</td>
<td>7,743,750</td>
<td>28,393,750</td>
<td>12,887,600</td>
<td>54.62%</td>
</tr>
<tr>
<td></td>
<td>1873</td>
<td>27,196,740</td>
<td>10,198,777</td>
<td>37,395,517</td>
<td>15,026,198</td>
<td>59.82%</td>
</tr>
<tr>
<td>D</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>General debt</td>
<td>87,197,360</td>
<td>27,040,279</td>
<td>114,237,639</td>
<td>43,968,396</td>
<td>61.51%</td>
</tr>
<tr>
<td></td>
<td>Lottery bonds</td>
<td>31,518,000</td>
<td>6,734,950</td>
<td>38,242,950</td>
<td>14,211,407</td>
<td>62.84%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>190,997,580</td>
<td>61,803,905</td>
<td>252,801,885</td>
<td>106,437,234</td>
<td>57.90%</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the CFB.
According to the terms of the settlement, revenues obtained from the sources that were ceded to the OPDA would be applied entirely to the payment of interest and to the redemption of loans subject to the negotiations. The first obligation of the administration was the payment of the annuity amounting to LT 590,000 for the priority bonds held by the Galata Bankers. The balance of receipts was to be devoted to the service of the bond series, with 80 percent apportioned to interest and 20 percent to the redemption of the debt, on condition that at least 1 percent interest on the diminished capital was distributed to the bondholders. Moreover, the maximum rate of interest was fixed at 4 percent, and the maximum rate of redemption was fixed at 1 percent. If the conceded revenues ever yielded more than 5 percent of the principal, the surplus would go to the treasury. For purposes of amortization, the ten loans in default were divided into four groups based on the respective securities on which they had been floated. Group A consisted of the 1858 and 1862 loans; group B consisted of the loans of 1860, 1863–4, and 1872; and group C of the loans of 1865, 1869, and 1873. Finally, group D consisted of bonds without any special hypothecations, those of the General Debt and the Treasury Loan. The sinking fund of up to 0.25 percent would be applied exclusively to the redemption of the first group. If a surplus remained up to 0.5 percent would be applied to the redemption of the second group. If a surplus remained, it would be applied, up to 75 percent, to the redemption of the third group, and lastly if there was still a surplus it would be applied, up to 1 percent, to the redemption of the last group.

Hence, the Ottoman state had compromised its domestic autonomy by giving up more than one-third of state revenues that were ceded to the control of the administration. As argued by historians, the establishment of the OPDA constituted ‘a severe blow to Ottoman pride and sovereignty’. One major question that merits an answer is why the Ottoman government agreed to a debt settlement, which in a way meant compromising both its political and financial sovereignty? First of all, after the loss of the Russian war and in the face of escalating pressure from the creditor countries for a debt settlement, the Porte was not left with many other options. In this context, the establishment of the OPDA was an imposition of the European powers rather than a choice of the Porte itself. At the time, the primary concern of the Porte was to escape from the international commission recommended by the Treaty of Berlin. It sought a new deal that would not only satisfy the foreign bondholders but also eliminate the possibility of a takeover of a greater part of Turkish
finances by foreign governments. As argued by Blaisdell, ‘it [the establishment of the OPDA] was less of an evil than would have been the establishment of an official political organization for the accomplishment of the same object’.  

Even though it is often overlooked, there were substantial differences between the recommendations of the Treaty of Berlin and the organizational structure of the OPDA, which made the latter more tolerable for the Ottoman government. As opposed to the international financial commission recommended by the Treaty of Berlin, the OPDA did not enjoy the official protection of the powers whose nationals were represented in the council. According to Protocol 18 of the Treaty of Berlin, the members of the commission would be appointed by the creditor governments, and thus would be responsible to their governments in the first place. In the case of the OPDA, the members of the council were directly appointed by the bondholder organizations of the respective countries, and were responsible first to the bondholders. There is no doubt that these representatives were under the influence of their governments, and sometimes even handpicked by them. But on many occasions they also conflicted with the general policies of their governments in protecting their bondholders’ interests, which were closely tied to the performance of the Ottoman economy.

Besides the fear of foreign military intervention, other concerns might also have played a role in shaping the Porte’s decision. In many ways, the establishment of the OPDA can be viewed as a natural outcome of the increasing dependency of the central bureaucracy on outside resources to finance its recurring budget deficits. As observed from the repeated failed attempts at reformation, the state bureaucracy lacked the organizational and administrative skills to reform its finances. On the other hand, under the existing circumstances, cutting back expenses was no longer an option for the treasury. The Empire was in no position to get back on its feet through its own means. In the early months of 1881, the financial situation of the Empire was as critical as ever. According to a report sent to the Crédit Lyonnais, the June receipts for the current year were estimated at below LT 10 million, leaving a budget deficit of at least LT 13 million. The palace had serious difficulties in paying the wages of its employees and even the palace cooks were striking on account of their unpaid wages. Therefore, another concern of the Porte, though not as critical as the first one, was to regain access to international markets. By
the terms of the decree, the Porte had lowered the outstanding debt of the Empire to a relatively more reasonable level by making a strong commitment, and thereby rebuilding the credit of the Empire. In this sense, the OPDA also functioned as a commitment mechanism and became instrumental in underwriting the government's credit and ensuring that it obtained loans on much more favorable terms than in the days before the bankruptcy.

Finally, the Ottoman central authority was not as concerned about the erosion of its fiscal sovereignty by the decree as so far argued by some historians. After all, the handling of certain state revenues by the OPDA was not that different from the very common practice of tax farming. As mentioned earlier, tax farming was employed in a large part of the Ottoman Empire, because the state simply did not have the ability or the administrative capacity to collect taxes through its own means in a more effective manner. Moreover, the widespread corruption in bureaucracy and the escalation of smuggling activities posed great challenges. Besides, heavy taxation of the already impoverished population could further erode the Sultan’s authority. By the delegation of tax collection and the handling of other state revenues to a third party, the Sultan could avoid direct confrontation with his people and remain a respected figure or the final executor of justice. The delegation of authority allowed the Sultan to distance himself from the highly unpopular tobacco monopoly in fighting against smugglers. Thus, it was not the Sultan but the Régie officials that were the target of the widespread protests by tobacco producers.

Furthermore, even though many writers point to the Decree of Muharrem in 1881 as the date when the Ottomans lost their fiscal sovereignty to the Europeans, the practice of handing state revenues to foreigners was not something new. As mentioned before, a couple of years earlier, the same sources of revenue (with the exception of some minor additions in the Decree of Muharrem) had been ceded to the Galata Bankers and the BIO. Here it is important to note that the BIO was by far the largest shareholder in the administration.

Another important aspect of the debt renegotiations was the BIO's active role in the process, both as a creditor and as a mediator between the government and the foreign bondholders. As the major organization controlling the ASIR, the debt settlement would deprive the BIO of its privileges granted by the November Convention. So why did the BIO consent to the signing of the Decree of Muharrem?
The November Convention had raised numerous protests from bondholders’ organizations all over Europe. Faced with the growing enmity of the foreign bondholders and diplomatic protests by the creditor governments, the BIO officials realized that the existing structure of the ASIR was not sustainable over the long term. The hostility of the bondholders could be diffused by making certain concessions from the November Convention. The initial plan of the BIO administration, and also their most favorable solution, was giving the foreign bondholders a larger share of the revenues collected by the ASIR.137 Such an arrangement would not only allow the BIO to maintain its control over the administration, but also enable the bank, this time backed by European bondholders, to expand its economic and political power over the economy. However, the European bondholders had already lost confidence in the bank after the signing of the November Convention. Consequently, they refused outright to leave the BIO in control of the indirect contributions, and demanded the abolishment of the ASIR. Under these circumstances, the BIO could either initiate a new arrangement involving the representatives of foreign bondholders or side with the Porte and stay out of the debt renegotiation efforts of the European financial circles in order to continue its unrivaled position in the ASIR. The BIO chose the former, and initiated the international debt renegotiations that resulted in the Decree of Muharrem.

Several factors might have played a role in the BIO’s decision to bring the government to the negotiating table, even though it meant compromising the bank’s privileged position in the existing administration. One major factor was the reputational concerns of the BIO administration. As mentioned before, the BIO was a consortium of British and French bankers, and held branches both in London and Paris. Moreover, the participants in the consortium and members of the bank’s general committee were well respected, influential figures in the European financial markets and the domestic politics of their respective countries.138 After the reactions to the Banker’s Convention, we might presume that they were increasingly concerned that not only the bank’s reputation, but also their reputation in Europe, could be damaged in the long run.

Furthermore, the BIO administration was also concerned that, with the increasing financial needs of the treasury, the argument it formerly deployed to defend its lending on the securities that were already mortgaged to foreign creditors could be turned against itself. That is, the
Porte could offer the administration of the indirect revenues to the foreign bondholders as security for a new loan, discarding the existing agreement with the domestic creditors. Hence, the BIO and the local bankers were concerned that they would not only lose their priorities in the debt service, but they would also lose their role in the administration of the revenues. If the Porte sought a new settlement with the creditors, they would rather be involved than remain out of the process.

Another concern of the BIO was the weakness of the enforcement mechanisms behind the November Convention. These concerns were confirmed during the early months of 1881, when the Porte threatened the BIO with canceling the agreement unless they advance an additional LT 1 million to finance military preparations against Greece. The government could cancel the convention unilaterally at any time, and now that the BIO had also lost the support of the other foreign creditors and governments, they had no credible threat mechanism at their disposal other than denying further credits to the government. Therefore, the existing pattern of domestic lending was unsustainable in the long term. Each time the government was in need, it would turn to the BIO for a new loan and the BIO would be forced to accept its demands to avoid risking the repayment of its existing loans. As the total amount of the loans grew, the BIO would be more and more trapped into financing the recurring budget deficits of the government.

When revenues of the Administration of the Six Indirect Contributions were ceded to the OPDA, the BIO and the local bankers became the first mortgagees on the ceded revenues, while their debt (to be extinguished in 22 years) became marketable by permission granted to them for the issue of bonds, known as the priority bonds. The agreement reached with the Decree of Muharrem, as opposed to the arrangements under the November Convention, was hardly reversible. The agreement was signed by the representatives of bondholders from all major European powers. Their governments, although not directly involved in the negotiations, gave their unofficial support. With the decree, the BIO administration compromised its privileged role in the ASIR and consented to a reduction in its outstanding loans. In return, the settlement put the repayment of more than LT 4 million owed by the government on a basis that commanded wider international approval. The bank also convinced the representatives of bondholders to farm out the tobacco monopoly, the most attractive source of state revenues, to a consortium headed by the BIO.
As far as the foreign bondholders were concerned, their incentives for signing the agreement should be analyzed under two subgroups. The bondholders of the hypothecated loans gained privileges in the amortization of their debt and the coupon payments, in return for a reduction in the principal and the interest on their loans and surrendering their rights on their collaterals to the OPDA, which was liable for the debt service in general. The uncertainty about the future of their loans was significantly reduced by the establishment of the OPDA, and their bonds became marketable once again.

As for the bondholders of the General Debt, at first glance this group might seem the most disadvantaged since they were ranked the lowest in amortization. Moreover, by the terms of the agreement, a larger reduction was made on their loans. However, these bonds had no collateral, the main reason for their profitability at the time. By the decree, holders of these bonds managed to grab a share in the revenues previously assigned to other bondholders in return for their concessions.

Despite the major advantages offered by the decree, it did not go unopposed in the European press. The representatives were heavily criticized for making a great concession. Nonetheless, in few years, as the OPDA gained the confidence of foreign investors, the agreement proved to be very profitable for bondholders, since the risk assigned to the government was significantly reduced by the establishment of the OPDA. Figure 2.2 illustrates the trend in the market values of Ottoman bonds on the Paris Bourse from 1885–1903, before the unification of the debt. The figure does not show the group A bonds that were amortized as early as 1897. As illustrated in the figure, even group D bonds, which were considered to be the least secure, increased their value by more than 100 percent within the period.
Figure 2.2: Market value of the Ottoman bonds in Paris: 1885–1903

Source: Kazgan, 1985: 691.
Empirical studies in the world system theory argue that debt settlements served to restore the hegemony of the core over the periphery and to restructure the world economy in accordance with the growing needs of the core economies. As these studies illustrate, the Ottoman default was far from being an isolated incident. In the mid-1870s and 1880s many debtor countries faced severe external debt service problems and eventually had to agree on new contracts for the settlement of their debts. The process always involved power asymmetries in favor of the creditors. In some cases the lenders were satisfied by certain institutional changes that secured the repayment of their loans and offered opportunities to further their economic or political gains. In other cases, the lenders went further and gained direct control over the fiscal revenues of debtor countries.

This book has analyzed the aftermath of the debt settlement and the role of the resulting institutional structure in the peripheralization of the Ottoman Empire. The course of history transformed a series of profitable transactions for the core economies into an opportunity to establish a European financial administration in the Empire, through which they could safeguard their investments and extend their political control over the Ottoman Empire. As argued by Eldem, both the intensity and the nature of capital flows into the Empire changed radically in the OPDA era in a way that seemed to substantiate the Imperialism theories of the time:
With the sharp turn of 1881, the nature of the financial relations between the West and the Ottoman Empire changed radically, both in intensity and in nature. A steady flow of Western capital started to penetrate the Ottoman market at an increasing rate, and most of all, in ways that entailed a greater control over some of the most crucial sectors of the economy. In short, from the 1890s on, Ottoman integration with Europe had started to take a substantially different course, much akin to imperialism. 

The characterization of the OPDA as an element of Western imperialism is not uncommon in the literature. However, these studies do not provide a fulfilling answer to the following questions: Why did the nature of capital flows into the Empire change after the OPDA? Why did foreign direct investment take place in this period, and not before? How did a government which had defaulted before, and hence already had a bad reputation as a borrower, regain access to foreign capital markets at considerably lower risk premiums? To be sure, a comprehensive answer to these questions would encompass the dynamics at the core of the world system. As argued by Lenin, foreign direct investment from core to the periphery was the distinguishing aspect of Western imperialism in the late nineteenth century. However, besides the dynamics of the core economies, which have been overemphasized in the world system literature, one should also take into account the institutional changes in the periphery that facilitated this process. This would also enable us to understand why foreign capital flowed into certain peripheral economies and certain sectors, but not others. In this context, this book aimed to fill this gap by exploring the institutional background of the peripheralization process at the domestic level by focusing on the role of the OPDA.

From the early seventeenth century onward, the Ottoman Empire witnessed the weakening of the state institutions, a process that brought about a loss of control over both economic and political spheres. Until the second half of the sixteenth century, the traditional decentralized military structure based on the timar system functioned well and the Empire continued to expand. In this period, the financial position of the Ottoman state was considerably strengthened by the revenues obtained through rapid territorial expansion. However, in the late sixteenth century, developments in arms technology created the need for a modern central army. This not only brought the dissolution of the decentralized military structure, but also necessitated a cash flow collected at the center in order to finance the new army. For this purpose, the Ottoman government introduced a series of
reforms, including the introduction of the iltizam system, which was based on tax-farm auctioning and subcontracting. As the financial problems of the state mounted, the government gradually increased the length of the tax-farming contracts and introduced new methods of tax collection.5

Nevertheless, none of these attempts to reform the tax collection system brought a long-term solution to the Ottoman budget deficits, which were often financed through debasements of the coinage. The capitulations contributed to the financial difficulties of the Porte by restricting its ability to pursue a protectionist development strategy and depriving the state of control over the customs duties, a considerable source of revenue for its European counterparts.6 Moreover, the tax exemptions granted to foreign citizens and the protégés of the European powers, who dominated the most profitable economic activities in the period, imposed serious restrictions on the development of state revenues.

As the government could not overcome the increasing budget deficits through institutional reforms and frequent debasements, it turned to the Galata Bankers who provided the Ottoman government with short-term advances at often usurious rates. As the financial needs of the Empire grew, the Porte became more dependent on these bankers who borrowed from abroad and lent to the government, enjoying exceptionally high interests due to their unrivaled position in the domestic market and their connections within the government. From this perspective, the Porte’s decision to turn to foreign capital markets for the issue of loans could also be seen as an attempt to break the monopoly of the domestic bankers and secure long-term loans at lower rates. Moreover, by the time a new loan was floated in the European markets, much of the money had in fact already been borrowed from the domestic market in the form of short-term advances, or would have to be borrowed in the near future in order to meet the payments on earlier loans. Hence, some foreign loans were simply a means for debt consolidation at more favorable terms.

Until 1854, the Ottoman government remained reluctant to seek foreign loans, mainly due to political concerns. The treasury crisis caused by the expenses of the Crimean War forced the Ottoman Empire to reconsider the borrowing opportunities in foreign markets. Under the official guarantee of its allies, Britain and France, the Ottoman state contracted its first loan in foreign markets – thus embarking on a path that would ultimately lead to its insolvency.
In order to float bonds in foreign markets, the debtor country must show some effective guarantees of its capacity for future repayment. In the Ottoman case, the Porte still had not established a budget system; the existing accounts of the treasury were unreliable and hardly monitorable. Under these circumstances, it was very difficult for the government to issue loans secured on the general revenues of the treasury and more revenues had to be pledged as collateral. For every attempt to raise a new loan, the Porte had to rely more on less attractive collaterals, which gradually brought an increase in the risk premiums charged on these loans. In the 1860s, the Porte initiated several institutional reforms in order to gain credibility in the European markets. These reforms included several measures aimed at improving the reliability and monitorability of the financial accounts. In some cases, the government went as far as delegating the collection of certain revenues of the central government to the BIO, or setting up a largely independent commission to control and approve the budgets. Nevertheless, European investors continued to question the sincerity of the government and risk premiums remained considerably higher on foreign loans during this period. The skepticism of the investors was often justified as the reforms were not fully carried through after securing the loans.

After 20 years of borrowing, the Ottoman government defaulted in 1875 and declared the Decree of Muharrem in 1881, which led to the establishment of the OPDA. By the terms of the decree, the Porte compromised its financial and political autonomy. Yet, the decree also helped to solve the Porte’s short-term liquidity problems as the Ottoman government regained access to European financial markets at significantly lower risk premiums than ever before. Ottoman borrowing in the pre-OPDA period was marked by several reforms aimed at restoring eroding confidence in the Ottoman government. During the OPDA period, this trust problem was overcome by the constraints placed on the sovereignty of the government and the extension of OPDA control over the Ottoman economy. Hence, lending to the Ottoman government was no longer a matter of trust in the government itself. Rather, it was a matter of trust in an international commission established for the liquidation of the foreign debt. The extension of the OPDA’s control of the Ottoman economy was surely a matter of concern for the government, but in need of short-term liquidity it often resorted to foreign loans, despite the fact that each loan agreement brought more constraints on the economic sovereignty of the Porte.
The establishment of the OPDA encouraged not only foreign lending but also foreign direct investment in the Empire. A considerable amount of the FDI in this period went to railway schemes that not only facilitated domestic economic activities but also encouraged the penetration of Western goods into the interior of the country. Hence, the construction of the railways was one of the major dynamics behind the peripheralization of the Ottoman economy in this period. The OPDA played a crucial role in the railway investments. European capitalists who sought profits amidst the disorder that prevailed in the country often asked for the protection or the cooperation of the OPDA. The involvement of the administration in the railway projects secured their investments to a large degree, minimized their risks and enabled them to enjoy handsome profits. As Blaisdell notes:

The opening-up of the Ottoman Empire to Europe and the world was accompanied by the realization of profits whose production was assured by the interposition of the Public Debt Council.7

Under the terms of the decree, the revenues from the salt and tobacco monopolies, the stamps and spirits tax, the fish tax, and the silk tithe in certain districts as well as the Bulgaria tribute, the revenue from Eastern Rumelia and the surplus of the Cyprus revenue were irrevocably ceded to the OPDA, until liquidation of the debt. The administrative system introduced by the OPDA, in many respects, formed a great contrast to the financial administration of the Ottoman government. The OPDA introduced new technologies to the relevant sectors under its responsibility, improved the regulations and made the necessary legislative changes concerning the development of its revenues. Improvements in the revenues under its control and the introduction of new institutions in the relevant sectors also created positive externalities for other sectors of the economy. It is also important to note that in salt, silk and spirits revenues, the OPDA achieved significant increases by creating export markets for these articles. This was one reason for the growth in exports from the Empire in this period. Finally, the international treaties imposed on the Porte by the European powers also restricted the administration's ability to improve its revenues. In several cases, for example the stamp law, wine duties and patent law, the OPDA officials complained of unfair conditions imposed by these treaties and asked for revisions. In some cases they managed to convince the European powers to make minor modifications.
The most important revenue of the OPDA, the tobacco monopoly, was farmed out to the Régie Company, which turned out to be not only the largest foreign investment in the country, but also the largest corporation. The establishment of the Régie system altered the pre-existing production, credit and distribution networks in the tobacco sector. One immediate effect of the Régie on the tobacco economy was a considerable drop in the number of tobacco cultivators. This was mostly due to the elimination of small producers, as well as the high license fees, low purchase prices, and excessive regulations applied on the remaining growers. Smuggling flourished under these conditions and became a major obstacle to the success of the company.

After the establishment of the Régie, a large number of Greek and Muslim tobacco producers emigrated to Egypt, where no restrictions existed on cigarette manufacture. These immigrants initially established small workshops employing a few workers rolling cigarettes. Their small workshops gradually evolved into larger factories selling ready-made cigarettes. During this process, many artisans turned into industrialists and the cigarette industry became one of the leading industries in Egypt, a prominent exporter of manufactured cigarettes. By contrast, in the Ottoman Empire, the same evolution process was disrupted by the establishment of the Régie, while Ottoman immigrants who fled from the monopoly formed the backbone of the Egyptian tobacco industry.

Throughout its existence, the Régie was a focus of public opposition. It was regarded as a symbol of Western imperialism and exploitation, mostly due to its controversial methods in dealing with the cultivators and its infamous surveillance unit, *kolcis*, held responsible for the deaths of thousands. After the establishment of the republic, one of the priorities of the economic agenda, as discussed at the economic congress, was the abolition of the monopoly system. In this context, the new Turkish parliament passed a law abolishing the foreign monopoly, and officially nationalized the tobacco monopoly. However, instead of switching to the banderole system, the new Turkish state chose to adapt the organizational framework practiced by the Régie. Significantly, the new republic inherited most of the institutions created during the OPDA era. TEKEL (the state monopoly on salt, tobacco and spirits), the largest state enterprise of the Turkish Republic, was established on these foundations.
The OPDA’s role in risk reduction

The theoretical contribution of this book to the existing literature on the OPDA is twofold. First, it introduces a game theoretical framework to analyze the institutional background of Ottoman borrowing. This model explains how foreign investors made their risk assignments; how the risk premiums on individual loan issues were determined in the international markets. The model is then used to highlight the sources of decline in risk premiums on loans issued in the OPDA era. The model illustrates that the constraints placed on the sovereignty of the Porte by the Decree of Muharrem enabled the government to borrow from international markets at lower risk premiums.

There were basically two main factors that affected the risk assignments of the creditors. The first was the perceived higher probability of debt service in the OPDA era. The reliability and monitorability of the financial accounts of the OPDA reduced the uncertainty about the repayment of debt and brought about a considerable fall in the risk premiums. The second factor was the increase in expected net returns in case of insolvency. The key function of the OPDA was the maintenance of coordination among the Ottoman bondholders. The coalitional stability of the creditors formed an important enforcement mechanism by creating a wider international consensus on the legitimacy of the OPDA. Hence, as the perceived probability of government intervention in case of default increased, expected returns from lending to the Ottoman government rose considerably. This lowered the risk premium charged on loans issued by the Ottomans.

The dual role of the OPDA

The second theoretical contribution of this book to the literature on the OPDA is that it provides a novel interpretation of the administration’s function in the peripheralization of the Empire by emphasizing its ‘dual role’ in the process. In contrast to the previous accounts, portraying the OPDA merely as an aggressive outpost of Western imperialism or an agent of European powers pursuing hegemony in an Empire on the brink of collapse, this book also points out the role of the OPDA in the modernization of the Turkish state.

The OPDA played a crucial role in the transfer of economic surplus from the Empire to the core economies. It certainly secured and furthered the
interests of the countries directly or indirectly represented in the administration. The main purpose of the OPDA was the collection of taxes to pay the shares of the foreign bondholders. More efficient tax collection meant a bigger tax burden on the impoverished agricultural population and a greater capital outflow from the economy. Significantly, most members of the OPDA also held additional posts in other foreign corporations operating in the Ottoman Empire. In case of a disagreement between the Ottoman government and these corporations, the administration usually sided with the interests of the latter. Perhaps most important of all, by limiting the state's control over the appropriation and utilization of the economic surplus, the establishment of the OPDA terminated the sporadic efforts of the palace to recreate Ottoman centralism. In these respects, the role of the OPDA lends support to the 'colonization through lending' arguments.

Yet, this book also demonstrates another aspect of the OPDA that has been previously overlooked in most historical accounts. With the Decree of Muharram, the OPDA received the right to administer, collect, and hold in deposit the revenues resulting from the development of the sources of income ceded to the bondholders. In this framework, the OPDA initiated several measures including administrative reforms and technology transfers that not only facilitated growth in the sectors under its responsibility, but also generated positive externalities for other sectors. The administrative reforms initiated by the OPDA also set examples for the Ottoman state. Double-entry bookkeeping, first introduced by the Ottoman Bank and then by the OPDA to state accounting, was later adopted by the Ottoman state as the standard accounting principle. The institutional reforms initiated by the administration contributed to the development and modernization of state entrepreneurship in the Empire. The backbone of the early republican economy owes much to these reforms.

While analyzing the role of the OPDA in the penetration of Western capitalism into the Empire, this book also challenges several arguments previously developed by nationalist historical accounts of the administration. In this literature, the OPDA is often portrayed simply as an official agent of foreign powers or Western capitalism. This approach perceives Western capitalism as a monolithic entity and overlooks the fact that different capitalist groups, even with the same country of origin, might have conflicting interests on a variety of issues. OPDA members were directly appointed by the bondholder organizations of the respective countries. Hence, they were responsible above all to the bondholders.
These representatives were undoubtedly under the influence of their governments, and sometimes even handpicked by them. But on many occasions they also opposed the general policies of their governments to protect the interests of their bondholders, which were closely tied to the performance of the Ottoman economy. For instance, while foreign merchants and governments pressed for lower tariffs on European goods and the extension of the tax privileges granted to foreign subjects, the OPDA asked for trade protection and the abolishment of tax privileges for foreigners. In some cases, the impositions of the foreign powers posed serious restrictions on the development of the OPDA's revenues.

Another argument observed in the nationalist critiques of the period is that foreigners forced loans on the government at usurious rates. This book has shown that the high rates on foreign loans stemmed mostly from a lack of trust in the Ottoman finances and the attempts at reform. After the OPDA, the risk premiums on foreign loans declined drastically due to the strong enforcement mechanisms for sovereign compliance. Moreover, unable to command confidence in the financial markets by its own means, the government aimed to benefit from the credibility of the OPDA. Therefore, when necessary, the government voluntarily transferred more revenue sources to the control of the OPDA in order to raise new loans at more favorable terms. Hence, in a similar way to that described in North and Weingast's seminal paper on the economic consequences of the Glorious Revolution, the constraints on the sovereign enabled the Ottoman government to regain access to foreign capital markets with lower risk premiums. The constraints were imposed by the internal dynamics of the country while in the Ottoman case they were imposed from outside nearly 200 years later. In the 'age of high imperialism', this delay made the Ottoman Empire even more vulnerable to political and economic exploitation by the European powers. The reason why the internal dynamics of the Ottoman Empire could not develop a similar set of institutions as in Britain is beyond the scope of this book. However, it is surely crucial in understanding the Ottoman Empire's later subordination to the European powers.

Absence of reforms in the Ottoman Empire

One crucial point that requires further attention is the striking disparity between the performances of the government and the OPDA (or the Régie) in the administration of the revenues. Why could the Ottoman state
not initiate, on its own, the administrative reforms, technology transfers and organizational renovations that helped the OPDA to drastically raise the revenues previously controlled by the government? In the case of the administration’s success in wiping out the contraband, the answer is relatively simple. The OPDA did not function as a governmental organization, but rather as a private company controlled by foreign creditors, who did not have responsibilities towards the local population. For instance, the government might have overlooked the sale of contraband salt in poor districts or contraband activities of unpaid army personnel in the tobacco sector to avoid social disturbances. For the government, all these activities were part of a larger equation. Using force to fight smuggling could lead to unfavorable political consequences. The OPDA, on the other hand, simply worked as a private company pursuing the maximization of its own profits. It was much less interested in the political consequences. Hence, at least in the case of contraband, the main reason for the disparity between the economic performances of the OPDA and the government was not the inability of the latter to use similar methods. Faced with a tradeoff between economic and political objectives, the government chose to tolerate some level of contraband despite its economic costs.

In other cases, however, the drastic increases achieved by the OPDA revealed the inefficiency and the backwardness of the management of the Ottoman finances as compared to its Western counterparts. The underdevelopment of the state enterprises or the state finances was closely related to the underdevelopment of private enterprise and the organization of economic life in general. In the West, many developments in business organization and administration, such as the introduction of double-entry bookkeeping, first occurred in the private sector and were later adopted by the public sector. However, in the Ottoman Empire, the development of the private sector was much slower.

Kuran’s work on the economic consequences of the Islamic inheritance system offers a compelling explanation for the underdevelopment of the Ottoman enterprises as compared to their Western counterparts. According to Kuran, the egalitarian Islamic inheritance system limited the size and duration of partnerships, while primogeniture, a widely used inheritance practice in Europe, facilitated enterprise preservation and growth. Islamic law, requiring the division of estates among numerous heirs upon the death of a partner, inadvertently raised the costs of liquidating a partnership prematurely. Accordingly, Middle Eastern merchants
minimized the risk of premature liquidation by limiting the size and duration of their partnerships. In Europe, on the other hand, large partnerships evolved into modern joint-stock companies, enjoyed economies of scale, developed new methods and invested in new technologies in order to improve their productivity and efficiency.

The late adoption of double-entry bookkeeping by the Ottoman state was also closely related to the underdevelopment of private enterprises. In Europe, the history of double-entry bookkeeping dated back to the thirteenth century. It grew rapidly, particularly among large firms, and gradually replaced single-entry bookkeeping due to several features that facilitated the monitoring of financial flows, enabled the detection of fraud as well as the sources of loss or profit, and increased the reliability of financial statements. This accounting principle not only facilitated the endurance of large partnerships and the working of the credit markets by bringing credibility to the financial statements issued by the firms or debtors, but also improved the efficiency of companies.

As pointed out by Kuran, the development of double-entry bookkeeping in Europe as a standard accounting principle was a response to the developing needs of large partnerships. In the Ottoman Empire, on the other hand, due to the Islamic inheritance system, commercial enterprises generally remained small and short-lived. Members of small partnerships did not feel the need to develop the type of sophisticated or standardized accounting techniques that become necessary to facilitate communication and coordination among large numbers of bondholders. Hence, the absence of double-entry bookkeeping in the Middle East until the late nineteenth century can be explained by the atomistic nature of the private sector.

Unlike the European experience, in the Ottoman Empire double-entry bookkeeping developed first in the state sector. After the establishment of the OPDA, the state had two separate budgets, one covering the revenues of the Ministry of Finance and the other concerning the revenues controlled by the OPDA. While the OPDA used double-entry bookkeeping in its financial records, the state continued to use single-entry bookkeeping. From Güvemli's accounts, we understand that the Ottoman authorities had observed the precision and accuracy of double-entry bookkeeping used by the BIO in the 1860s, and considered the adoption of this principle in 1880. However, due to a lack of trained personnel, this modern accounting principle could not be adopted by the Ministry of Finance until
as late as the 1910s. Although it goes unmentioned in the literature, there is no doubt that the OPDA, by introducing this modern accounting principle to state finances, played a crucial role in the adoption of double-entry bookkeeping by the Ministry of Finance.

**Foreign archives and the OPDA as sources of historical information**

Finally, this book also contributes to the existing literature on the OPDA through extensive research on the primary sources that were partly used by early foreign writers such as Blaisdell, Du Velay and Roumani, but largely ignored by Turkish studies of the period. A valuable source for an analysis of the administration is the Annual Reports of the OPDA. These reports contain detailed information about the organization of the OPDA, its conflicts with both the Ottoman government and foreign embassies, the development of the revenues ceded to the administration, and the payments made to the bondholders. Each source of revenue is analyzed under separate sections, with special focus on the changing circumstances that affected the development of these revenues. These archives also provide fairly consistent and accurate data regarding the sectors controlled by the administration, which is absent from previous Ottoman accounts of these sectors.

The second major archival source used in this work is that of the Council of Foreign Bondholders (CFB), formed in 1868 to protect the interests of British holders of foreign bonds. While similar bondholders’ associations were established in other countries at various times in history, the CFB was the longest-lived, best known, and most important of these institutions, mostly due to London’s pre-eminence as the main financial center during the period of interest here. The Annual Reports of the Council of Foreign Bondholders include the council’s annual assessments regarding financial, political and economic developments in the Ottoman Empire as well as other debtor countries that issued bonds in London. Another important source of information found in the Council’s archives is the newspaper cutting files of the CFB. In the early 1870s, the Council’s officers began systematically to collect and retain printed material, primarily newspaper cuttings, to supply basic information to the Council’s negotiators and provide background material for country reports. The cuttings are in English taken mainly from British daily newspapers, the weeklies and the financial press. These archives enable us to identify the obstacles faced by foreign investors in the Ottoman Empire and understand their reactions to the economic reforms and other changing economic or political...
circumstances in the country. More importantly, these archives, particularly the letters written by foreign investors in the country, provide the reader with comparisons between Western and Ottoman economic life from the foreigners’ perspective.

Another archival source used in this work is the Annual Reports of the Régie Company. Printed in French, these reports contain detailed information about the development of the revenues and the expenditures of the company. They also yield insights into the sources of these changes and the obstacles encountered by the tobacco monopoly. Despite the Régie’s significant place in the Ottoman economy during the last four decades of the Empire, the literature offers no thorough study of the company. By introducing original data gathered from these archives, this book aims to encourage further studies of the company, which was the largest, yet also the most controversial, enterprise of the late Ottoman Empire.

**Further research**

This book will hopefully spark a renewed interest in the OPDA and encourage further studies of the administration. One major difficulty during this research was the lack of reliable data regarding the administration of indirect revenues before the establishment of the ASIR. This made it impossible to measure the real magnitude of the improvements achieved by the OPDA in different sectors. In order to extend our knowledge beyond the archives of the OPDA, further studies of the administration should focus on local sources in regions where the OPDA policies became influential.

Recently, both scholarly and popular discourses in Turkey have witnessed a growing emphasis on the similarities between the OPDA and the IMF and their role in the transformation of Turkish economy, following two external debt crises a century apart. However, a satisfactory comparative analysis of the Turkish experience with these two organizations is still lacking. While there is a striking resemblance between the role of the OPDA (and similar creditor organizations established in other debtor countries in 1880s) and the IMF (such as the introduction of strong enforcement mechanisms for sovereign compliance with debt contracts and transparency in state finances), there are also essential differences between these organizations. The former had vested interests in the country and in some cases even defended protectionist government policies when they
coincided with its interests. The latter, however, has a global agenda that includes maintaining global financial stability, as well as facilitating international trade. A comparative study of these organizations would also help us identify the structural changes in the core-periphery relationship within the last century.

Finally, the newspaper cutting files of the CFB contain foreign investors' accounts of their individual experiences in the Empire. Despite the prevalence of strong orientalist prejudices, these accounts also include valuable observations about the dysfunctional organization of the Ottoman bureaucracy, the backwardness of the Ottoman financial institutions, and comparisons with European institutions. While the Ottoman accounts of the period take many institutions as given, such as the existing accounting or budgetary principles of the state (mostly due to the lack of knowledge of modern methods), the accounts of the foreign observers draw attention to the distinguishing features of the Ottoman finances. In this context, studies that aim to transcend the traditional ‘military crisis’ explanations and scrutinize the institutional roots of the crisis in Ottoman finance would surely benefit from these archives.