The Evolution of Factor Markets in the Ottoman Empire, 1500-1800

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1. Introduction

In recent decades institutions and institutional change have been identified as key variables that help explain the widely disparate economic performance of different societies over the last five hundred years. Based on the successful experience of Western Europe and European off-shoots, new institutional economics has argued that long run economic change is the cumulative consequence of innumerable short-run decisions by political and economic agents that both directly and indirectly shape performance. Economic growth is attained because the underlying framework persistently reinforced incentives for organizations to engage in productive activity.

New institutional economics emphasizes that economic institutions determine the incentives of and the constraints on economic actors and an array of economic outcomes including investment decisions, organization of production and the distribution of resources. By influencing decisions for investments in physical and human capital, technology and the organization of production, economic institutions shape long term economic change. Economic institutions that are conducive to economic growth are those that provide security of property rights and relatively equal access to economic resources by a broad cross-section of society. Economic institutions encouraging economic growth emerge when political institutions allocate power to groups with interests in this direction.

It has also been argued that economic institutions are endogenous, that is, they are ultimately determined by society, or a segment of it. Because different groups and individuals typically benefit from different economic institutions, there is generally a conflict over the choice of economic institutions, ultimately resolved in favour of groups with greater political power. Economic institutions that provide incentives to invest in land, physical and human capital or technology are more likely to arise when political power is in the hands of a relatively broad group with significant investment opportunities. The state can be a major player in this context. It maintains coercive power to enforce these rules. In the Western European case, as the result of political struggles and alliances, the state and associated institutions moved to provide the legal framework that reinforced incentives for organizations to engage in productive activity.

Institutional economics and economic historians have come to recognize, however, that institutional change is usually not in the direction of most efficient outcomes and that a society rarely arrives at or creates institutions that are conducive to economic growth. In most cases, institutions have favoured activities that promote redistributive rather than productive activity, that restrict opportunities rather than expand them. Similarly, rather than reinforcing incentives towards productive activity, in most cases states acted as instruments for transferring resources from one group to another or promoting their own survival at the expense of others. In short, the process of institutional change has not always been favourable to economic growth. Politics and political struggles have played an important role in these unfavourable or less successful outcomes as well.[1]

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[1] Douglass C. North and Robert P. Thomas, *The Rise of the Western World: A New Economic History*, Cambridge University Press, 1973; Douglass C. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, 1990; Thrain Eggertsson, *Economic Behavior and Institutions,* Cambridge University Press, 1990; more recently, Daron Acemoglu, Simon Johnson and James Robinson, "Institutions as the Fundamental Cause of Long-Run Growth", unpublished manuscript prepared in 2004 for Philippe Aghion and Steve Durlauf (eds.), *Handbook of Economic Growth.*

The Ottoman Empire stood at the crossroads of intercontinental trade, stretching from the Balkans and the Black Sea region through Anatolia, Syria, Mesopotamia and the Gulf to Egypt and most of the North African coast for six centuries until World War I. For most of the seventeenth and eighteenth centuries, its population exceeded 30 million (of which the European provinces accounted for half or more; Anatolia and Istanbul for 7 to 8 million, other Asian and North African provinces for another 7 to 8 million) but declined thereafter due to territorial losses.

Until recently, Ottoman historiography had depicted an empire in decline after the sixteenth century. In contrast, we will argue that the Ottoman state and society were able to adapt to changing circumstances in the early modern era, well before the nineteenth century reforms known as *Tanzimat* or "re-ordering". Beginning with the successful centralization drive in the second half of the fifteenth century, Ottoman economic institutions and policies were shaped to a large degree by the priorities and interests of a central bureaucracy. This central bureaucracy managed to contain the many challenges it faced with its pragmatism, flexibility and habit of negotiation to co-opt and incorporate into the state the social groups that rebelled against it.

If pragmatism and flexibility refers to the willingness of actors not to be bound in their actions and in the institutions they adopt by specific and rigid rules based on custom, traditions, religion or past behaviour, the Ottomans were familiar with these traits from the earliest period. Emerging in a highly heterogeneous region populated by Christians and Muslims, Turkish and Greek speakers, the Ottomans' success in western Anatolia and later in the Balkans during the fourteenth and fifteenth centuries owed much to their willingness and ability to adapt to changing conditions, to utilize talent and accept allegiance from many sources, and to make many-sided appeals for support. They were thus able attract many followers not only as warriors fighting against the Christians but also Muslims and Christians fighting for the riches to be gained, the positions and power to be won. The Ottomans also displayed remarkable openness to technological innovation, to adapt firearms on a greater scale, more effectively and earlier than the neighbouring states. Similarly, they exhibited considerable degree of flexibility and pragmatism while expanding the territories under their control. They were prepared to negotiate for the loyalty of local elites whenever the new state was unable to impose full control. They also proved to be quite adept at learning about and borrowing institutions from others. In short, the early Ottoman enterprise was not a religious state in the making, but rather a pragmatic one.[2]

Focusing on the "rise of the West", institutional economics and economic historians have paid less attention to studying the unsuccessful or less successful cases of institutional change, especially those outside the Western European context. In this study we are interested in examining institutional changes outside the Western European context. We will not argue that Ottoman institutions, and more specifically factor markets in the Ottoman Empire, came to resemble those that gave rise to capitalism. We will argue, instead, that from the second half of the fifteenth century, the bureaucracy was the most powerful group in Ottoman society and politics. This bureaucracy brought about institutional

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[2] Cemal Kafadar, *Between Two Worlds, the Construction of the Ottoman State*, University of California Press, Berkeley, 1995; Heath W. Lowry, *The Nature of the Early Ottoman State*, SUNY Press, Albany, 2003; and Donald Quataert, *The Ottoman Empire, 1700-1922*, Cambridge University Press, 2000, pp. 13-36. Ottoman willingness to adopt new military technologies have recently been re-examined by Jonathan Grant, "Rethinking the Ottoman "Decline": Military Technology Diffusion in the Ottoman Empire, Fifteenth to Eighteenth Centuries", *Journal of World History*, 10, 1999, pp. 179-201. There is a good deal of evidence that Ottoman pragmatism in non-economic matters continued in later periods. Karen Barkey has argued, for example, that during the crises of the seventeenth century, the central bureaucracy managed to contain the many challenges it faced with its pragmatism, flexibility and habit of negotiation to co-opt and incorporate into the state the social groups that rebelled against it. Karen Barkey, *Bandits and Bureaucrats, The Ottoman Route to State Centralization*, Cornell University Press, 1994.

changes in selective areas, in military technology and organization, in public finance, for example, and such selective institutional change enabled the Ottomans to maintain their rule and the empire to survive a much longer period.

Pragmatism, flexibility, willingness to negotiate, ability to adapt some of their institutions to changing circumstances were traits that enabled the Ottomans to retain power until the modern era while many of their contemporaries in both Europe and Asia were unable to do so. While these may provide insights towards understanding the longevity of the empire, the limitations of such flexibility and pragmatism need to be equally emphasized.

Institutional change did not apply equally to all areas of Ottoman economic life. Moreover, not all types of institutions were affected to the same degree by these changes. Because the central bureaucracy was able to retain its leading position in Ottoman society and politics, the influence of various social groups, not only of landowners but also of merchants, manufacturers and moneychangers, over economic matters, and more generally over the policies of the central government remained limited until the end of the empire. As a result, most of the pragmatism and flexibility was utilized by the central bureaucracy for the defence of the existing order and of its own position.

In contrast, institutional changes that may threaten the leading position of the central bureaucracy position were resisted more forcefully than others. Institutional change thus remained selective and many of the key institutions of the Ottoman order such as state ownership of land, urban guilds and restrictions on private capital accumulation remained intact until the nineteenth century. We will also argue that selective institutional change led to very different pace and patterns of change in the three factor markets. Capital markets, especially those related to affairs of the state showed considerable change in the early modern era.

In contrast, changes in labour and land markets remained limited as these institutions were defended fiercely by the bureaucracy. The same argument may be stated in different terms: those in favour of greater changes in these factor markets, for example landowners, merchants and manufacturers were not strong enough to overcome the opposition of the bureaucracy and other political forces until the nineteenth century.

We begin below with an overview of Ottoman economic institutions during the sixteenth century. We will also discuss the circumstances under which and the extent to which these institutions changed during the early modern era. We will then move on to examine the factor markets in the Ottoman Empire and their evolution during the early modern era.

2. Economic Institutions

Until the end of the sixteenth century, the rise of the Ottoman Empire was closely associated with territorial expansion. Military success, in turn, depended closely on the land tenure regime that supported a large, cavalry-based army. The Ottoman bureaucracy always took care to undertake detailed censuses of the new territories in order to assess their fiscal potential. Even after territorial expansion slowed down in the second half of the sixteenth century, agriculture continued to provide the economic livelihood for close to 90 percent of the population and key fiscal support for the Ottoman state. The durability of the empire, its achievements as well as limitations during the next three centuries can not be understood without paying attention to its agrarian institutions.

The peasant family farm was the basic economic and fiscal unit in the countryside in most of Anatolia and the Balkans, the core areas of the empire where the relatively high land/labour ratios favoured small holdings.[3] The state established ownership over most of these lands early on and did not relinquish it until the second half of the nineteenth century. Hereditary usufruct of the land was given to peasant households which typically cultivated with a pair of oxen and family labour.

The collection of taxes from the peasant cultivators and the conversion of these revenues to a large provincial army made possible by the *timar* system. Under this prebendal system, *sipahis*, state employees often chosen for their wartime valour, lived in the rural areas, collected mostly in-kind taxes from agricultural producers and spent the revenues locally on the training and equipment of a pre-determined number of soldiers as well as their own maintenance. The Ottoman central administration did not attempt to impose the *timar* regime in all of the conquered territories, however. In many of the more distant areas such as Eastern Anatolia, Iraq, Egypt, Yemen, Wallachia, Moldavia and the Maghrib, the Ottomans were eager to collect taxes but altered the existing land regimes either to a limited extent or none at all. The most important reason for this preference was the wish to avoid economic disruption and possible popular unrest. It was also not clear whether the central government had the fiscal, administrative and economic resources to establish a new regime in these areas.

The central government thus handled the task of establishing the land tenure cum fiscal regime for the expanding empire with a large degree of pragmatism. This approach was in fact quite similar to Ottoman practices in other areas. As a result, there emerged inside the empire zones with varying degrees of administrative control. At the core, were areas most closely administered by the capital with institutions most closely resembling those in the Istanbul region. With increasing distance

[3] Halil Inalcık, "The Ottoman State: Economy and Society, 1300-1600," H. İnalcık and D. Quataert (eds), *An Economic and Social History of the Ottoman Empire, 1300-1914*, (Cambridge University Press, 1994), pp. 103-79.

from the capital, the institutions and administrative practices reflected the power balances between the capital and the local structures and forces. For example, the land regime and the fiscal practices in Ottoman Egypt remained closely linked to the demands of irrigated agriculture along the Nile valley. In the more distant frontier regions, the Ottomans retained many of the local institutions and did not attempt impose the institutions of the core regions.[4]

3. Economic Priorities and Policies

Late medieval and early modern states all had to address a common range of economic problems. The most basic of these were related directly to the maintenance of the states themselves. The provisioning of the capital city, the armed forces and to a lesser extent of other urban areas, taxation, support and regulation of long distance trade and maintaining a steady supply of money were amongst the leading concerns of economic policy.[5]

In their economic polices, states did not pursue public interest in some abstract sense of the term. Instead, both the goals and design of economic policies as well as institutions related to their implementation were shaped by the social structure, the relationship between state and society, the interests of different social groups aligned with or represented by the state, and more generally, by the social and political influences acting on the state. To understand Ottoman economic policies or practices, it is thus necessary to examine the nature of the Ottoman state

[4] For Ottoman pragmatism and flexibility in the administration of the frontier provinces, see Gabor Agoston, A Flexible Empire: Authority and its Limits on the Ottoman Frontiers", *International Journal of Turkish Studies*, Vol. 9, 2003, pp. 15-31.

[5] One should add the qualification that for most societies in the late medieval and early modern periods, it is difficult to talk about an economic sphere separate from the political, administrative and fiscal; Edward Miller, "France and England," in "The Economic Policies of Governments," M. M. Postan, E. E. Rich and E. Miller (eds.), *The Cambridge Economic History of Europe* vol. 3, (1963), pp. 282-91.

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 centre 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 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.

For the Ottomans, there existed an ideal order and balances between social groups such as the peasantry, guilds and the merchants. The sultan and the central bureaucracy were placed at the top of this order. This ideal changed over time with changes in the economy and society. Nonetheless, 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, rapid accumulation of capital by merchants, guild members or any other group was not considered favourably since it would lead to the rapid disintegration of the existing order.

As a result, the governments' attitude towards merchants was profoundly ambiguous. On the one hand, merchants, large and small, were considered indispensable for the functioning of the urban economy. Yet, at the same time, their activities occasionally led to higher prices of raw materials, bringing pressure on the guild system and more generally 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 was similarly ambiguous.[6] 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.[7]

Another important priority of the Ottomans was the provisioning of the urban areas including the army which was seen as necessary for the stability of the social order.[8] The government wanted to assure a steady supply of goods 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 the control of the intercontinental trade routes became increasingly important and even critical for these needs.[9] Foreign merchants were especially welcome

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[6] Huri İslamoğlu and Çağlar Keyder, "Agenda for Ottoman History," *Review, Fernand Braudel Center* 1 (1977), 31-55.

[7] Carlo Cipolla has argued that there was a virtual identity between the merchants and the state in the trading towns of medieval Italy. "More than once the action of the guild of merchants seemed to imply the affirmation, *l'etat c'est moi.*" Ottoman merchants during the early modern era could not possibly make a similar claim. Instead, as Udovitch has concluded for the merchants of eleventh-century Egypt, Ottoman merchants could at best proclaim *'l'etat n'est pas contre moi'*. Carlo M. Cipolla, "Currency Depreciation in Medieval Europe," *Economic History Review* 15 (1963), p. 397 and A.L. Udovitch, "Merchants and *Amirs*: Government and Trade in Eleventh Century Egypt," *Asian and African Studies* 22 (1988), pp. 53-72.

[8] Mehmet Genç,"Osmanlı İktisadi Dünya Görüşünün İlkeleri," *İstanbul Üniversitesi Edebiyat Fakültesi Sosyoloji Dergisi*, 3. Dizi, 1 (1989), 175-85; Halil Inalcık, "The Ottoman State: Economy and Society", pp. 44-54.

[9] Inalcık, "The Ottoman State: Economy and Society", pp.48-52 and 179-379; also Palmira Brummett, *Ottoman Seapower and Levantine Diplomacy in the Age of Discovery*, (Albany: State University of New York Press, 1994), pp. 131-174

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 may be better 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.

The contrasts between these policies and the practices of mercantilism in Europe are obvious. It would be a mistake, however, to identify the concern with the provisioning of urban areas solely with Ottomans or Islamic states. Frequent occurrences of crop failures, famine and epidemics combined with the primitive nature of the available means of transport led most if not all medieval governments to focus on the urban food supply and more generally on provisioning as the key concerns of economic policy. These Ottoman priorities and practices had strong parallels in the policies of the governments in western and southern Europe during the late Middle Ages, from the twelfth through the fifteenth centuries.[10] The contrasts between Ottoman and European

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[10] Miller, "France and England," pp. 290-340; and C. M. Cipolla, "The Economic Policies of Governments," "The Italian and Iberian Peninsulas," in Postan, Rich and Miller (eds.), *The Cambridge Economic History of Europe,* vol. 3, pp. 397-429.

economic policies emerged during the era of mercantilism in Europe.[11] One important reason why mercantilist ideas never took root in Ottoman lands was that merchants and domestic producers whose ideas and perspectives were so influential in the development of these ideas in Europe did not play a significant role in Ottoman economic thought.[12] 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.

4. Selective Interventionism

Economic historians of the Ottoman Empire have long emphasized that interventionism was a permanent feature of Ottoman economic policies.[13] It is true that 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 early Ottomans were

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[11] The Ottomans were not unaware of mercantilist thought and practice. Early eighteenth century historian Naima, for example, defended mercantilist ideas and practices and argued that if the Islamic population purchased local products instead of the imports, coinage would stay in Ottoman lands; see Naima, *Tarih-i Naima*, ed. by Zuhuri Danışman, Danışman Yayınevi, Istanbul, 1968, Vol. 4, pp. 1826-27 and Vol. 6, pp. 2520-2525.

[12] For mercantilism in Europe, compare F. Eli Heckscher, *Mercantilism*, revised second edition, George Allen and Unwin, (London: 1955); D. C. Coleman, *Revisions in Mercantilism*, Methuen and Co., (London: 1969); and Robert B. Ekelund Jr. and Robert F. Hebert *A History of Economic Theory and Method*, McGraw Hill, (New York: 1990), pp. 42-72.

[13] Genç,"Osmanlı Iktisadi Dünya Görüşü".

definitely 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 shariat. The practices they used such as the enforcement of regulations (*hisba*) in urban markets and price ceilings (*narh*) 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.[14]

Nonetheless, it is necessary to distinguish priorities and intentions from actual implementation. Whether the governments succeeded in bringing about the desired outcomes through their interventions depended on their capabilities. Yet, there existed serious limitations on the administrative resources, organization and capacity of all early modern states. They did not have the capacity to intervene in markets comprehensively and effectively. Interventions in the economy did not necessarily mean that the government succeeded in bringing about the desired outcomes. 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 (1444 and 1451-1481) towards more selective interventionism in the later periods.

Unfortunately, this evolution and the more selective nature of government interventionism after the fifteenth and sixteenth centuries

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[14] Ülgener, "İslam Hukuk ve Ahlak Kaynaklarında İktisat Siyaseti Meseleleri," pp. 1151-1189; Mübahat S. Kütükoğlu, *Osmanlılarda Narh Müessesesi ve 1640 Tarihli Narh Defteri*,(İstanbul: Enderun Kitabevi, 1983), pp. 3-38. For the texts of late fifteenth and early sixteenth century laws regulating the markets in large Ottoman cities, see Ömer Lütfi Barkan, "Bazı Büyük Şehirlerde Eşya ve Yiyecek Fiyatlarının Tesbit ve Teftişi Hususlarını Tanzim Eden Kanunlar," *Tarih Vesikaları*, Vols. 1 and 2, 1942-43.

have not been adequately recognized. The laws issued by Mehmed II and his immediate successors continue to be referred to as examples of government interventionism in the economy. The inability of many historians to make a more realistic assessment about interventionism is primarily due to a state-centred perspective. In addition, 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, many 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. After collecting a few of these from the court archives, most historians have assumed that *narh* was a permanent fixture of urban economic life. In fact, my recent searches through all of the more than thousand registers of three of Istanbul's courts, those of the Old City, Galata and Üskudar from the fifteenth through mid-nineteenth century indicate that *narh* lists were not prepared regularly. They were 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, 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.[15]

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.[16] 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 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 centres, the state organization was not as strong there and the local authorities, who were appointed by the centre, were more willing to cooperate with the locally powerful groups, the guild hierarchy, merchants, tax collectors and moneychangers.[17]

Examples from Ottoman monetary practices will only confirm the Ottoman tendency to rely on markets and local practices in most economic matters. Until the sixteenth century, Ottoman territories in Anatolia and the Balkans had a unified monetary system based on the gold *sultani* and the silver *akçe*. At the bottom of the hierarchy were the copper coins with nominal values and for small transactions. As the

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[15] *Narh* lists were issued most frequently during 1585-1640 and 1785-1840. These were both periods of monetary and price instability. S. Pamuk, *Five Hundred Years of Prices and Wages in Istanbul and Other Cities, 1469-1998*, State Institute of Statistics, Ankara, 2000. Otherwise, there were long stretches, often decades, when no *narh* list was issued in the city of Istanbul.

[16] Istanbul was a giant, consuming city dependent on its vast hinterland. The classic work on the economy of the capital city and the nature of state intervention in that economy remains Robert Mantran, *Istanbul dans la seconde Moitie du XVIIe Siecle*, (Paris: 1962), Chapitre II, pp. 233-286; also Inalcik, "The Ottoman State: Economy and Society", pp. 179-87.

[17] See, for example, Halil Inalcik, "Bursa and the Commerce of the Levant," *Journal of the Economic and Social History of the Levant* 3 (1960), 131-47; Masters, *The Origins of Western Economic Dominance*; and Daniel Goffman, *Izmir and the Levantine World, 1550-1650*, (Seattle: University of Washington Press, 1990).

Ottoman state territorially expanded to become a full fledged empire in the sixteenth century, however, this simple system could not be continued. The newly conquered territories, each of which was subject to different economic forces and very different patterns of trade, already had well-established currency systems of their own. The Ottomans pursued a two-tiered approach to money and currency in these areas. In gold, the *sultani* became the only Ottoman coin across the empire in the sixteenth century. This was due to both symbolic and economic reasons. With a single gold coin, the ultimate symbol of sovereignty, the Ottomans thus unified the empire from the Balkans to Egypt and the Maghrib. In another example of pragmatism, the standards of the *sultani*, its weight and fineness, were kept identical to those of the Venetian ducat which had become the accepted standard of payment in long distance trade across the Mediterranean and beyond.

In silver coinage used in daily transactions and to some extent in long distance trade, the central government chose to continue with the existing monetary units in the newly conquered territories with or without modifications. The most important reason for this preference was the wish to avoid economic disruption and possible popular unrest. Also, it was not clear whether the central government had the fiscal, administrative and economic resources to unify the silver coinage of the empire. As a result, while the silver coinage minted in the new territories from Mesopotamia to Egypt and to Tunis began to bear the name of the sultan, their designs and standards as well as the names of the currencies adhered to the pre-Ottoman forms and usages. Earlier styles and types of copper coinage were also continued.

In all regions of the empire the silver currency remained the basic unit of account and the leading means of payment in local transactions. The exchange rates of the Ottoman and foreign gold coins, expressed in terms of the local silver unit was determined by the markets, subject to the changes in the silver content of the silver currency, fluctuations in the gold-silver ratio and a host of other factors. The state encouraged the circulation of all types of foreign coinage in order to maximize the means of payment in local markets. Moreover, the government did not adhere to a legally fixed rate of exchange between the gold and silver coins or a fixed gold-silver ratio around which the face value or the standards of both type of coins would be determined. Similarly, the exchange rates of the various coins were also determined by the local markets. The basic virtue of this system was its flexibility. As long as the markets determined the exchange rates of various coins and if the official rates at which the government accepted these coins followed the markets closely, none of these coins was likely to be over or undervalued. For this reason, they were less likely to disappear.[18]

In short, a more realistic assessment of the nature of Ottoman state interventionism in the economy is long overdue. When the biases of archival evidence and the limitations on the power and capabilities of the state are taken into account, Ottoman policy towards trade and 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.

5. The Evolution of Capital Markets

Capital markets institutions consist of rules for the credit markets, rules for the transferability and maturity of financial claims, rules concerning the liability of debtors and shareholders, financial

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[18] Pamuk, *A Monetary History of the Ottoman Empire*, pp. 66-76, 88-111.

intermediaries. This section examines different aspects of capital markets in the Ottoman Empire and their evolution during the early modern era. The emphasis will be on pragmatism, flexibility and selective change. It is clear that capital markets institutions in the Ottoman Empire changed to a greater extent than labour and land market institutions during the early modern era.

I. Islam and Interest

It has often been assumed that the prohibition of interest in Islam prevented the development of credit, or at best, imposed rigid obstacles in its way. Similarly, the apparent absence of deposit banking and lending by banks has led many observers to conclude that financial institutions and instruments were, by and large, absent in Islamic societies. It is true that a religiously inspired prohibition against usurious transactions was a powerful feature shared around the Mediterranean during the Middle Ages, both by the Islamic world and Christian West.[19] While the practice of *riba*, the Arabic term for usury and interest, is sharply denounced in a number of passages in the Qur'an and in all subsequent Islamic religious writings, already in the classical era, Islamic law had provided several means by which the anti-usury prohibition could be circumvented just as the same prohibitions were circumvented in Europe in the late medieval period. Various legal fictions, based primarily on the model of the "double-sale" were, if not enthusiastically endorsed by jurists, at least not declared invalid. Thus, there did not exist an insurmountable barrier against the use of interest bearing loans for commercial credit.

Neither the Islamic prohibitions against interest and usury nor the absence of formal banking institutions prevented the expansion of credit

[19] For a recent discussion of the classical Islamic views on interest, see N. A. Saleh, *Unlawful Gain and Legitimate Profit in Islamic Law: Riba, Gharar and Islamic Banking*, (Cambridge University Press, 1988), pp. 9-32.

in Ottoman society. Utilizing the Islamic court records the late Ronald Jennings has shown that dense networks of lenders and borrowers flourished in and around the Anatolian cities of Kayseri, Karaman, Amasya and Trabzon during the sixteenth century. Over a twenty year period which his study covered, he found literally thousands of court cases involving debts. Many members of each family and many women are registered in these records as borrowing and lending to other members of the family as well as to outsiders. These records leave no doubt that the use of credit was widespread among all segments of the urban and even rural society. Most lending and borrowing was on a small scale and interest was regularly charged on credit, in accordance with both Islamic and Ottoman law, with the consent and approval of the court and the *ulema*. In their dealings with the court the participants felt no need to conceal interest or resort to tricks in order to clear legal hurdles. Annual rates of interest ranged from 10 to 20 percent.[20]

One important provider of loans in Istanbul, the Balkans and the Anatolian urban centres were the cash *vakifs*, pious foundations established with the explicit purpose of lending their cash assets and using the interest income to fulfil their goals. These endowments began to be approved by the Ottoman courts in the early part of the fifteenth century and had become popular all over Anatolia and the Balkan provinces by the end of the sixteenth century. An interesting development that became more pronounced during the eighteenth century was the increasing allocation of the funds to the trustees of these endowments. The trustees then used the borrowed funds to lend at higher rates of interest to large-scale moneylenders (*sarraf*) at Istanbul who pooled these

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[20] R. C. Jennings, 'Loans and credit in early 17th century Ottoman judicial records', *Journal of the Economic and Social History of the Orient* 16 (1973), 168-216.

funds to finance larger ventures, most importantly, long distance trade and tax-farming.[21]

Not surprisingly, a lively debate developed during the sixteenth century within the Ottoman *ulema* regarding whether the cash *vakif* should be considered illegitimate. The cash *vakifs* were opposed by those who believed that only goods with permanent value such as real estate should constitute the assets of a pious foundation and that the cash *vakifs* contravened the Islamic prohibition of interest. The majority of the *ulema*, however, remained eminently pragmatic and the view that anything useful for the community is useful for Islam ultimately prevailed. During the heated debate, Ebusuud Efendi, the prominent, state-appointed religious leader (*seyhulislam*) of the period, defended the practice from a purely practical point of view arguing that abolition of interest taking would lead to the collapse of many pious foundations, a situation that would harm the Muslim community.[22] Ottoman institutions of credit and finance retained their Islamic lineage and remained mostly uninfluenced by the developments in Europe until the end of the seventeenth century.[23]

II. Business Partnerships

Even though there did not exist an insurmountable barrier against the use of interest-bearing loans for commercial credit, this alternative was not pursued in the medieval Islamic world. Instead, numerous other commercial techniques were developed which played the same role as interest-bearing loans and thus made the use of loans unnecessary. These included a variety of business

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[21] M. Çizakça, *A Comparative Evolution of Business Partnerships, The Islamic World and Europe with Specific Reference to the Ottoman Archives*, (Leiden: E. J. Brill, 1996), pp. 131-34.

[22] J. E. Mandaville, 'Usurious piety: the cash waqf controversy in the Ottoman Empire', *International Journal of Middle East Studies* 10 (1979), 289-308.

[23] Çizakça, Murat (1996), *A Comparative Evolution of Business Partnerships, the Islamic World and Europe*, E. J. Brill, Leiden.

partnership forms such as *mudaraba* or commenda, credit arrangements, transfers of debt and letters of credit all of which were sanctioned by religious theory. Long distance trade was thus financed not by simple credit relations involving interest but by a variety of Islamic business partnerships the specifics of which depended on the nature of the risks and the resources provided by the different partners.

Ottoman merchants widely used the varieties of Islamic business partnerships practiced in the Islamic world since the classical era.[24] The most frequently used method in the financing of long distance trade and certain other types of business ventures was the *mudaraba* partnership of classical Islam in which an investor entrusted his capital or merchandise to an agent who was to trade with it and then return the principal. The profits were then shared between the principal and the agent according to some pre-determined scheme. Any loss of the capital resulting from the exigencies of travel or the business venture itself were borne exclusively by the principal. The liability of the agent was limited to his time and efforts.[25] To a lesser extent the Ottomans also used *mufawada* partnership of the Hanefi school of Islam in which the partners were considered equals in terms of capital, effort, returns and liabilities. In the related *musharaka* or *inan* arrangement, the partners were free to invest different amounts and agree to share the returns and liabilities in unequal but pre-arranged rates.

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[24] A.L.Udovitch, , *Partnership and Profit,* Princeton University Press, 1970, pp. 170-217; and Çizakça, *A Comparative Evolution*, pp. 66-76.

[25] In essence, this was identical to the commenda of Europe. For discussions of the Islamic origins of European commenda, see A. L. Udovitch, 'At the origins of the Western commenda: Islam, Israel, Byzantium', *Speculum* 37 (1962), 198-207; and E. Ashtor, 'Banking instruments between the Muslim east and the Christian west', *Journal of European Economic History*, 1 (1972), 553-73; and Çizakça, *A Comparative Evolution*, pp. 10-32

Evidence from Islamic court records on commercial disputes and their resolution until the middle of the nineteenth centuries indicate that in Anatolia and Istanbul, at least, the Ottoman jurists were well informed about the teachings of medieval Muslim jurists and, in general, adhered closely to the classical Islamic principles in disputes arising from these partnerships. There were some innovations over the centuries; for example, some interesting combinations of *mudaraba* and putting out activities were developed. On the whole, however, evidence from hundreds of business partnerships indicate that classical Islamic partnership forms not only survived but were applied, with minor exceptions, true to their original forms until the nineteenth century. Çizakça suggests that the continued dominance of small scale firms or partnerships was probably the most important reason for the limited changes in this area.[26]

One important instrument in the finance of long distance trade was the *suftaja*, a bill of exchange or letter of credit. The basic purpose of the *suftajas* was to expedite long-distance payments or transfer of funds. In Europe the bill of exchange entailed the initial payment of one type of currency in return for the payment of another type of currency at a different location. In the Geniza documents of medieval Egypt the *suftajas* consistently appeared as involving the repayment of exactly the same type of money to the issuing banker. They were as good as money; the bearer could fully expect to redeem his *suftaja* for cash immediately upon arrival at his destination. The prompt payment was further assured by the government through the imposition of stiff penalties for any delays.

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[26] Çizakça, *A Comparative Evolution*, pp. 65-85 and 126-131; also M. Çizakça,'Financing silk trade in the Ottoman Empire: 16th-18th centuries" in S. Cavaciocchi (ed.), *La Seta in Europa secc. XIII-XX*, (Prato: Le Monier, 1993), pp. 711-23.

Suftajas were used widely inside the Ottoman empire between Anatolia, the Aegean islands, Crimea, Syria, Egypt and also with Iran. Ottoman court documents from fifteenth and sixteenth century Bursa, a major centre in long distance trade point to the high frequency of the use of *suftajas*. The local judges (*kadis*) were actively involved in the enforcement of the *suftajas* in their various forms.27 Another type of letter of credit was the *hawala* which was an assignation of a fund from a distant source of revenue by a written order. It was used in both in state and private transactions to avoid the dangers and delays in the transportation of cash.[28]

III. Institutions of State Borrowing

The evolution of Ottoman fiscal institutions during the seventeenth and eighteenth centuries provides a good example of the ability of the Ottoman state to contain the challenges it faced with pragmatism, flexibility and habit of negotiation to co-opt and incorporate into a broad alliance, if necessary, the social groups that challenged its authority.

While loans to kings, princes and governments were part of the regular business of European banking houses in the late medieval and early modern periods, in the Islamic world advances of cash to the rulers and the public treasury were handled differently. They took the form of tax-farming arrangements in 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. Tax-farming thus dominated the Islamic world from the Mediterranean to the Indian Ocean, from the earliest days through the early modern period.

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[27] Udovitch, *Partnership and Profit*, pp. 268-69; Ashtor, ‘Banking instruments’, 554-62; and H. Sahillioğlu, ‘Bursa kadı sicillerinde iç ve dış ödemeler aracı olarak "Kitabü'l-Kadı" ve "Süftece”ler’, O. Okyar and H. Ü. Nalbandoğlu (eds.), *Türkiye İktisat Tarihi Semineri*, Hacettepe Üniversitesi Yayınları, Ankara, 1975, pp. 103-44.

[28] İnalcık emphasizes the use of hawala in state transactions. H. Inalcık, ‘Hawale’, *Encyclopedia of Islam, Second Edition*, Leiden and New York: E. J. Brill.

From the very beginning the Ottomans relied on tax-farming for the collection of urban taxes. Until late in the sixteenth century, however, the agricultural taxes which constituted the largest part of the tax revenues were collected locally and mostly in kind within the prebendal *timar* system. *Sipahis*, state employees who resided in the rural areas were expected to spend these revenues to equip and prepare a given number of soldiers for the military campaigns. Until the second half of the sixteenth century state finances were relatively strong thanks to the revenues obtained through the rapid territorial expansion of the empire and the state did not feel the need to increase the revenues collected at the centre. There are examples of short-term borrowing by the state during the sixteenth century. These services earned the financiers, mostly Jews and Greeks, the inside track on some of the most lucrative tax-farming contracts.[29]

With the changes in military technology during the sixteenth century and the need to maintain larger, permanent armies at the centre, however, pressures increased to collect a larger part of the rural surplus at the centre. As a result, the *timar* system began to be abandoned in favour of tax-farming and the tax units were auctioned off at Istanbul.[30] The shift away from the *timar* system had been designed to increase the cash receipts at the centre, but the decline of the state power vis-à-vis the provinces reduced the expected benefits from this change. Bureaucrats in the capital and provincial groups began to share tax farming revenues with the central government during the seventeenth century.

Further deterioration of state finances during the seventeenth century increased the pressures on the central government to take

[29] Inalcık, "The Ottoman State: Economy and Society, 1300-1600" in Inalcik and Quataert (eds.), *An Economic and Social History*, pp. 212-14.
[30] Linda T. Darling, *Revenue-Raising and Legitimacy, Tax Collection and Finance Administration in the Ottoman Empire, 1560-1660*, E.J. Brill, Leiden, 1996; H. İnalcık, 'Military and fiscal transformation in the Ottoman Empire, 1600-1700', *Archivum Ottomanicum* 6 (1980), 283-337.

greater advantage of the tax-farming system for the purposes of domestic borrowing. Especially during periods of war when the fiscal pressures were greatest, the central government thus began to increase the length of the tax-farming contracts from one to three years to three to five years and even longer. It also demanded an increasingly higher fraction of the auction price of the contract in advance. Tax-farming was thus converted to a form of domestic borrowing with the actual tax revenues being used as collateral by the central government.

Further steps were taken in the same direction with the introduction, in 1695, of the *malikane* system in which the revenue source began to be farmed out on a life-time basis in return for a large initial payment to be followed by annual payments.[31] One rationale often offered for this system was that by extending the term of the contract, the state hoped that the tax contractor will take better care of the tax source, most importantly the peasant producers, and try to achieve long term increases in production. In fact, the *malikane* allowed the state to use tax revenues as collateral and borrow on a longer term basis. In comparison to the straightforward tax-farming system, it represented an important shift towards longer term borrowing by the state.

With the extension of their term and the introduction of larger advance payments, the long term financing of these contracts assumed an even greater importance. The private financiers thus began to play an increasingly important role in the tax collection process. Behind the individual, often a Muslim, that joined the bidding in the tax-farming auctions, there often existed a partnership that included financiers as well as the agents who intended to organize the tax collection process itself often by dividing the large initial contract into smaller pieces and finding

[31] M. Genç, 'A study of the feasibility of using eighteenth century Ottoman financial records as an indicator of economic activity', in Huri İslamoğlu-İnan (ed.), *The Ottoman Empire and the World Economy*, (Cambridge University Press, 1987), pp. 345-73.

sub-contractors. Non-Muslims were prohibited from holding most *malikane* contracts but Greeks, Armenians and Jews were very much part of this elite as financiers, brokers and accountants. These arrangements were mostly in the form of Islamic business partnership involving both Muslims and non-Muslims.[32] Over the course of the eighteenth century, some 1,000 to 2,000 Istanbul based individuals, together with some 5,000 to 10,000 individuals in the provinces, as well as innumerable contractors, agents, financiers, accountants and managers controlled an important share of the state's revenues. This grand coalition of Istanbul based elites and the rising elites in the provinces constituted a semi-privatized but interdependent component of the regime.[33] Many provincials were able to acquire and pass from one generation to next small and medium sized *malikane* shares on villages as long as they remained in favour with local administrators or their Istanbul sponsors. For both the well-connected individuals in the capital city and those in the provinces, getting a piece of government tax revenues became an activity more lucrative than investing in agriculture, trade or manufacturing.

It is significant that these changes in the tax collection and revenue sharing system did not alter the legal basis of land ownership until the nineteenth century. Despite the rise of provincial elites, most agricultural lands remained *miri* or state land with the peasant households holding the usufruct while the *sipahis* gave way to tax farmers who were then replaced by *malikane* owners. State ownership on land combined with usufruct by the peasant household, a key institution of the classical Ottoman order thus remained intact until the modern era.

In the longer term, however, the *malikane* system did not fulfil the expectations of the central government. It actually led to a decline in state

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[32] Çizakça, *A Comparative Evolution of Business Partnerships*.
[33] Ariel Salzman, "An Ancien Regime Revisited: "Privatization" and Political Economy in the Eighteenth Century Ottoman Empire", *Politics and Society*, Vol. 21, 1993, 393-423.

revenues because of the inability of the state to regain control of the revenue sources after the death of the individuals who had purchased them.[34] The central government thus began to experiment with other methods for tax collection and domestic borrowing from the 1770s onwards. Rising military expenditures and increasing fiscal pressures during wartime were once again responsible for the institutional changes. After the end of the war of 1768-1774, which had dramatically exposed the military as well as financial weaknesses of the Ottoman system, the financial bureaucracy started a new and related system of long-term domestic borrowing called *esham*. In this system, the annual net revenues of a tax source were specified in nominal terms. This amount was divided into a large number of shares which were then sold to the public for the lifetime of the buyers. The annual revenues of the source continued to be collected by the tax farmers. The *esham* generally sold for six to seven times the annual net payments which remained fixed.[35] As the linkage between the annual government payments to *esham* holders and the underlying revenues of the tax source weakened, the *esham* increasingly resembled a life-term annuity quite popular in many European countries of the period.

One motivation for the new system was to broaden the base of state borrowing and reach beyond the limited numbers of large financiers who tended to dominate the *malikane* auctions towards a larger pool of small and medium sized lenders. However, the inability of the state to control or limit the sales of the *esham* between individuals and the difficulties in preventing the heirs of the deceased from continuing to receive payments seriously limited the fiscal benefits of this system. During the next half century, the state vacillated between abolishing the

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[34] Genç, ‘A study of the feasibility’.
[35] Cezar, Yavuz, *Osmanlı Maliyesinde Bunalım ve Değişim Dönemi: XVIII. yy.dan Tanzimat'a Mali Tarih*, Alan Yayıncılık, Istanbul, 1986, pp. 81-83; also M. Genç, ‘Esham’, *İslam Ansiklopedisi*, vol. 11, 1995, pp. 376-80.

esham during periods of fiscal stability and expanding it when fiscal pressures mounted and additional funds had to be secured with little regard for their long-term cost.[36]

In the early part of the nineteenth century, the centre, supported by the new technologies, was able to re-assert its power over the provinces. After the central government began to undermine the power of the provincial notables in the 1820s and 1830s, many of the *malikane* contracts were pulled back to the centre and their revenues began to be collected once again by tax farmers. The *malikane* or the life-term tax-farming system was phased out in the 1840s as part of a larger package of administrative and economic reforms. With the same package of centralizing reforms the central government also attempted to eliminate short term tax farmers. This last step failed, however, due to the administrative limitations of the central government. Short-term tax-farming continued until World War I. Nonetheless, the centralization of the nineteenth century helped raise the central governments share of the tax revenues from about 2 to 3 percent of the underlying economy (GDP) in the late eighteenth century to 10 to 12 percent on the eve of World War I.[37]

The long term evolution of Ottoman institutions of state borrowing illustrates the state's ability and willingness to reorganize as a way of adapting to changing circumstances, albeit slowly and often with considerable time lags. The rise and the evolution of the tax-farming, *malikane* and *esham* systems demonstrate the willingness of the central government to come to terms with the limits of its political and administrative power by entering into a broad alliance with elites and financiers in the capital city as well as those in the provinces. The central

[36] Cezar, *Osmanlı Maliyesinde Bunalım*, pp. 128-34, 198-200.
[37] My estimates based on series of central government budget documents and our estimates of per capita income in the Ottoman Empire.

bureaucracy was forced to share the tax revenues with provincial groups and financiers during the seventeenth and eighteenth centuries. With the centralization of the nineteenth century, however, the power and share in the tax revenues of these partners steadily declined while the ratio of (tax revenues reaching the central government/GDP) rose above 10 percent for the first time in Ottoman history.

The trajectory of the institutions provides important clues for understanding the longevity of the empire as well as the key position of the central bureaucracy until the end. It also suggests that the Ottomans were willing to borrow or adapt European financial institutions before the nineteenth century. Despite recent research on the evolution of the Ottoman forms, the causal connections between the evolution of the Ottoman institutions of public finance as outlined here and the evolution of the European institutions of public finance during the seventeenth and especially the eighteenth centuries have not yet been investigated. The parallels between the two are quite striking, however. It is likely that increasing economic and financial integration with Europe after the sixteenth century brought about rapid changes not only in the institutions of private finance but also in those of public finance.[38]

IV. Linkages with western European capital markets?

Recent research suggests that western European capital markets experienced a substantial degree of integration during the early modern era. Most international capital flows during this period took the form of lending to private and public borrowers in other countries, not direct

[38] G. Parker, 'The emergence of modern finance in Europe, 1500-1730', C. Cipolla (ed.), *The Fontana Economic History of Europe*, 2 (1974), 560-82; For the case of France, the country most likely to have influenced the changes in Ottoman institutions of public finance, see Eugene N. White, "France and the Failure to Modernize Macroeconomic Institutions", in Michael D. Bordo and Roberto Cortes-Conde (eds.), *Transferring Wealth and Power from the Old to the New World, Monetary and Fiscal Institutions in the 17th through the 19th Centuries*, Cambridge University Press, 2001, pp. 59-99.

investment. These international flows were facilitated by the political and institutional changes taking place in western European countries. As a result of institutional changes and greater integration of capital markets, there occurred from the late medieval to the eighteenth century substantial decreases in and a large degree of convergence of interest rates paid by the western European governments. These nominal rates of interest declined from a range of 10 to 20 percent per annum in the fourteenth century to a range of 5-10 percent in the seventeenth and to less than 5 percent in the eighteenth century.[39]

The Ottoman Empire remained outside the European capital markets network until the second half of the nineteenth century. While the Ottoman government did not consider external borrowing until late in the eighteenth century, it is not clear how much interest there would have been in the western European capital markets to lend to the Ottoman government. In part because the it remained outside the western European capital markets network, interest rates in the Ottoman Empire remained significantly higher than those prevailing in western Europe during the seventeenth and eighteenth centuries. Since the Ottoman government used the tax collection process for most of its borrowing as discussed above, it is not easy to identify the rate of interest paid by the state. Nonetheless, one may calculate the implicit rate of interest on the basis of some of the *esham* auctions in the second half of the eighteenth century. These calculations suggest that, until the middle of the nineteenth century, interest rates at which the state could borrow remained in the 12 to 15 percent range and rose to the 15 to 20 percent range and even higher during periods of distress such as wars or monetary instability.[40] It appears that the Ottoman government's inability

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[39] S. R. Epstein, Freedom and Growth, The rise of states and markets in Europe, 1300-1750, Routledge, London and New York, 2000, 16-29.
[40] My calculations as presented in Pamuk, A *Monetary History of the Ottoman Empire*,

or unwillingness to commit credibly to repayment put limits to the amounts they could borrow in the domestic markets. While the successful European pattern of public borrowing during wartime was followed by budget surpluses and paying back in peacetime, the Ottomans resorted to debasements whenever borrowing could not meet the state's financial needs.

6. Land as a Commodity?

In contrast to the capital markets, Ottoman land and labour market institutions experienced limited changes in the early modern era. We begin here with land market institutions which include contracts that stipulate the price and duration of the use of land, and institutions that arrange for the division of the fruits of investments in land or land use

During the early stages of Ottoman territorial expansion, lands taken over from the neighbouring states in the Balkans began to be registered as state lands. In contrast, private property on land continued in areas taken from the Islamic principalities in Anatolia. With the centralization drive in the second half of the fifteenth century, however, state ownership of agricultural lands was established as the basic form in most core regions of the empire, in the Balkans, Anatolia and Syria. Hereditary usufruct of state lands were then given to peasant households which typically cultivated with a pair of oxen and family labour. The peasant family farm thus emerged as the basic economic and fiscal unit in the countryside in the core areas of the empire where the relatively high land/labour ratios favoured small holdings.[41]

Cambridge University Press, 2000, pp. 191-2.

[41] Halil Inalcık, "The Ottoman State: Economy and Society, 1300-1600," H. İnalcık and D. Quataert (eds), *An Economic and Social History of the Ottoman Empire, 1300-1914*, (Cambridge University Press, 1994), pp. 103-79.

In these state lands, taxes collected from the peasant cultivators were converted to a large provincial army under the *timar* system. In this prebendal system, *sipahis*, state employees often chosen for their wartime valour, lived in the rural areas, collected mostly in-kind taxes from agricultural producers and spent the revenues locally on the training and equipment of a pre-determined number of soldiers as well as their own maintenance. The Ottoman central administration did not attempt to impose the *timar* regime in all of the conquered territories, however. Eastern Anatolia, Iraq, Egypt, Yemen, Wallachia, Moldavia and the Maghrib remained outside the *timar* system.

Towards the end of the sixteenth century, the *timar* based cavalry army began to lose its military effectiveness and the permanent army began to grow in importance. As the size and cost of the permanent army began to rise, so did the need for its finance. In the seventeenth century, the government began to shift from the *timar* system to tax-farming in order to collect a greater share of the agricultural taxes in cash and at the centre. These institutional changes were accompanied by the decline of state power and the rise of the power of provincial notables (*ayan*). Even though the *ayan* obtained greater control if not the monopoly of the tax collection system in the provinces during the seventeenth and eighteenth centuries both in its short term tax-farming and life-time *malikane* stages, they could not extend their power to establish private property on land. The state refused to recognize private ownership in agricultural lands until the new Land Code of 1858 with the exception of orchards and vineyards in urban areas. Local courts which had jurisdiction over matters of property rarely approved sales of agricultural land during the seventeenth and eighteenth centuries. When records listing the assets of the provincial notables are examined, it is clear that land ownership was only a small part of their holdings. Their economic power was achieved and extended through the control of the tax collection process. In these state lands usufruct thus remained in the hands of peasant households. The *ayan* were thus unable to translate their power into a more lasting autonomy. They continued to exploit the tax-collection process and to consolidate or diversify their revenue bases. When the central government began to reassert itself in the provinces during the 1830s, it was able to replace many of the leading notables with new individuals as provincial tax farmers. As the power of the long-standing notable families declined, *de facto* control of the *ayan* over agricultural land then weakened and the state (*miri*) status of the latter was reaffirmed. Free peasant family enterprises cultivating lands under state ownership was thus extended into the second half of the nineteenth century as the basic form in Ottoman agriculture.[42]

State power was not the only obstacle in the way of private property on land, however. For one thing, exports of agricultural commodities from Ottoman lands remained limited until the nineteenth century. In addition, in a landscape dominated by small peasant holdings, it was not easy to find wage labour. Large farms or estates using year-round labour thus remained few in number. The exceptions were mostly in the Balkans where expansion of long distance trade and greater population density shifted the balance in favour of larger estates oriented towards commercial agriculture.

7. Guilds and Labour Markets

Most of the labourers in the Ottoman economy were employed in agriculture. Share of agriculture in the labour force ranged between 80 to 90 percent during the early modern era. As emphasized in the previous section in agriculture, the family farm was by far the most frequently

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[42] Caglar Keyder and Faruk Tabak(eds.), *Landholding and Commercial Agriculture in the Middle East*, State University of New York Press, Albany, 1991.

observed form of enterprise in agriculture. Even the large holdings that were more frequently observed in the Balkans, for example, were most often leased out to sharecropping families that used unpaid family labour. Farms using year-round wage labour or servile labour was an exceptional category in the early modern Ottoman Empire. Seasonal wage labour was also limited but was observed in many regions and in certain crops such as cotton. As a result, most people in agriculture worked as unpaid family labourers. Rural industry using wage labour also remained limited until late in the nineteenth century. Most manufacturing activities remained within the rural household. Parts of the Balkans such as Macedonia and Bulgaria were an important exception to this pattern.

In the urban economy, wage labourers in manufacturing and local trade remained under the umbrella of the guilds until the second half of the nineteenth century. It would be safe to say that a large if not overwhelming majority of the urban labourers remained connected to the guilds during this period. The guilds exhibited some degree of flexibility as they adapted to changing conditions. They tried to regulate the labour markets by employing a wide range of restrictions including wage rates. The mostly autonomous guilds sought and obtained the support of the government to enforce the guild rules, secure raw materials at low prices and provide tax exemptions. The government, in turn, needed and relied on the guilds for the provisioning of the urban areas and the military. The guilds also offered the government an instrument for the supervision of the urban population. At the same time, however, there existed considerable amount of tension between the government and guild membership, both Muslim and non-Muslim. While the guilds tried to preserve their independence, they were viewed with suspicion for the heterodox religious beliefs of their membership.[43] In the provinces, local governments played a similar but more limited role. The guilds were generally freer of government supervision and intervention in the provinces. An important development in the eighteenth century was the increasing overlap between guild membership and the janissaries, the permanent army soldiers. The growing numbers of janissaries amongst guild membership both in the capital and the provinces increased the ability of the guilds to resist government pressure and intervention. After the abolition of the janissaries by the central government in 1826 and the establishment of a new permanent army, however, the guilds ability to resist government encroachment was sharply reduced.

The guilds did not attempt to place restrictions on new entries in the early period. These restrictions emerged and tensions between guild members and non-members began to rise in the seventeenth century, however. The right to own an enterprise that was part of an urban guild began to be bought and sold in the eighteenth century. The emergence of such a market may be taken as a sign that the value of these enterprises were rising. The emergence of a market in such licenses (*gedik*) can also be interpreted as a sign of the increasing power of the guilds and their ability to enforce restrictions on entry. The guild also attempted to prevent the activities of non-members and prevent merchants whenever they tried to organize alternative forms of production in the rural areas or just outside the limits of urban centres. The outcome of these efforts was mixed, however. In the Balkans, many labourers and enterprises operated outside the guilds beginning in the sixteenth century despite the opposition of the guilds and their efforts to seek local and central government action against the newcomers. On the other hand, entry of

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[43] Suraiya Faroqhi (1984), *Towns and Townsmen of Ottoman Anatolia: Trade, Crafts and Food Production in an Urban Setting, 1520-1650*, Cambridge University Press, 1984.

non-members labourers and owners was much more difficult in the capital city as the government played a more active role there. In the Arab provinces tensions between members and non-members began to increase in the eighteenth century as small but growing volume of trade and manufacturing activities began to take place outside the control of the guilds. In general, however, recent immigrants to urban areas did not find it easy to find employment in the guilds after the sixteenth century. Agricultural activities in and around the urban areas offered the recent migrants easier access to employment opportunities. Wage labour in manufacturing outside the umbrella of the guilds began to expand only in the second half of the nineteenth century after the guilds were subjected to a large degree of competition from imported European manufactures.[44]

8. Conclusion

In recent decades institutions and institutional change have been identified by economists and economic historians as key variables that help explain the widely disparate economic performances of different societies over the last five hundred years. Based on the successful experience of Western Europe and European off-shoots, new institutional economics has argued that long run economic growth is attained because the underlying framework persistently reinforced incentives for organizations to engage in productive activity.

Institutional economics and economic historians recognize, however, that a society rarely arrives at or creates institutions that are conducive to economic growth. While focusing on the “rise of the West”,

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[44] Suraiya Faroqhi, “The fieldglass and the magnifying lens: Studies of Ottoman crafts and craftsmen”, *Journal of European Economic History*, 20, 1991, pp. 29-57; Onur Yildirim, “The transformation of the craft guilds in Istanbul during the seventeenth and eighteenth centuries, 1650-1826”, *Revue des Etudes Sud-est Europeennes*, 38, 1999-2000, pp. 91-109.

institutional economics and economic historians have paid less attention to studying these unsuccessful or less successful cases of institutional change, especially those outside the Western European context. In this study we have focused on institutional change of a different type outside the Western European context. We have examined long term changes in the economic institutions of the Ottoman Empire including changes in the factor markets.

We have argued that the Ottoman state and society were able to adapt to changing circumstances in the early modern era, well before the nineteenth century reforms known as *Tanzimat* or “re-ordering”. Pragmatism, flexibility, willingness to negotiate and willingness to adapt their institutions were traits that enabled the Ottomans to contain many challenges, both internal and external. We have also emphasized the limitations of Ottoman flexibility and pragmatism, however. Ottoman economic institutions and policies were shaped to a large degree by the priorities and interests of a central bureaucracy. Because the central bureaucracy was able to retain its leading position in Ottoman society and politics, institutional change did not apply equally to all areas of Ottoman economic life during these centuries. The influence of various social groups, not only of landowners but also of merchants, manufacturers and moneychangers, over the policies of the central government remained limited. 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 many of the economic institutions.

Before the Industrial Revolution and the European expansion of the nineteenth century, the central bureaucracy faced its most serious challenge from the notables of the provinces. Despite a protracted struggle lasting almost two centuries, however, the *ayan* did not establish alternative institutions and mechanisms of capital accumulation. Despite their interests in trade, agriculture and manufacturing, tax-farming remained the most lucrative enterprise for them. In the early part of the nineteenth century, the centre, supported by the new technologies, was able to re-assert its power over the provinces. Most of the pragmatism and flexibility was thus utilized for the defence of the leading position of the central bureaucracy in that order. In contrast, institutional changes that may threaten that position were resisted.

We approached the analysis of Ottoman factor markets from this perspective of pragmatism, flexibility and selective institutional change. While capital markets experienced significant changes, especially in the areas concerning the state and state borrowing, institutional changes in land and labour markets remained limited during the early modern era. Many of the key institutions of the Ottoman order including state ownership of land and urban guilds remained intact until the nineteenth century.