The Evolution Of Fiscal Institutions In The Ottoman Empire, 1500-1914[*]

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I- Introduction

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. During 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.

For most of its six-century existence, the Ottoman Empire is best characterized as a bureaucratic, agrarian empire. The economic institutions and policies of this entity were shaped to a large degree by the priorities and interests of a central bureaucracy. 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". The central bureaucracy managed to contain the many challenges it faced

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with its pragmatism, flexibility and habit of negotiation to co-opt and incorporate into the state the social groups that rebelled against it. The Ottoman state also showed considerable flexibility to adapt not only its military technology but also its fiscal, financial and monetary institutions in response to the changing circumstances.

A comparison with the other two Muslim empires of Eurasia, the Safavids and the Mughals brings the Ottoman trajectory into sharper focus. The political economy of these three empires showed similar patterns of evolution during the sixteenth and seventeenth centuries. They all enjoyed a long period of stability, agricultural expansion and growing prosperity during the sixteenth century followed by severe fiscal and military difficulties and rising internal conflicts during the seventeenth century. The decline of central political institutions in all three of the empires was accompanied by the rise of provincial elites which had greater say on the evolution of regional economies. During the eighteenth century, both the Mughals and Safavids disintegrated under the pressure of tribal invasions. While the Mughals were taken over by the British, the Safavids were replaced by a regional Persian kingdom (the Qajars).[1] In contrast, the eighteenth century until the 1770s was a period of recovery, stability and economic expansion for the Ottoman Empire. Despite wars and internal conflict from the 1770s through the 1830s, the Ottomans managed to regroup and survive into the modern era with a strong central state and many of their central institutions intact.

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 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.

Pragmatism, flexibility, willingness to negotiate, ability to adapt 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. Ultimately, however, pragmatism and flexibility were utilized by the central bureaucracy for the defence of the existing order and of its own position. Institutional change did not apply equally to all areas of Ottoman economic life. 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

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[1] C. A. Bayly, *Imperial Meridian, The British Empire and the world, 1780-1830*, Addison

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. 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.

This essay provides an overview of the long term changes in the Ottoman fiscal institutions from the sixteenth century until World War I from this perspective of pragmatism, flexibility and selective institutional change. It examines the changing Ottoman strategies in dealing with tax collection, debasements, internal and external borrowing. Ottoman institutions of private and public finance retained their Islamic lineage and remained mostly uninfluenced by the developments in Europe until the end of the seventeenth century. State finances were in good shape and there was little need for borrowing during this early period. The Ottoman government continued to rely on tax-farming for both tax collection and short term borrowing purposes as had been the practice of most Islamic states. Unable to check the growing power of the provincial notables, the Ottoman state was able to collect limited amounts of taxes during the seventeenth and eighteenth centuries. Most of the tax revenues were retained by various intermediaries. As a result, state finances came under increasing pressure in the seventeenth century and again from the 1770s onwards, especially during periods of war. Fiscally motivated debasements were used rather frequently during these periods. New instruments for public borrowing began to emerge during the

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Wesley Longman Publishers, 1989.

eighteenth century in response to these fiscal pressures. After the centralizing reforms of the nineteenth century, Istanbul was able to increase the ratio of tax revenues to GDP from about 3 percent to more than 10 percent. State finances remained under pressure until the end of the empire, however. State borrowing in the European financial markets led to a default in the 1870s and partial control of state finances by European creditors until World War I. We begin below with an overview of the use of money and credit in the Ottoman economy.

II- Money and Credit

For a long time it has been assumed that the use of money in the Balkans and Anatolia was limited to long distance trade and parts of the urban sector.[2] Recent research has shown, however, that the urban population and some segments of the countryside were already part of the monetary economy by the end of the fifteenth century. Even more significantly, there occurred a substantial increase in the use of money during the sixteenth century, both because of the increased availability of specie and increasing commercialization of the rural economy. The evidence for this important development comes from a number of sources. First, recent research has pointed that population growth and urbanization during the sixteenth century were accompanied by the growth of economic linkages between the urban and rural areas. As a result, there emerged in the Balkans and Anatolia an intensive pattern of periodic markets and market fairs

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[2] F. Braudel, *Civilization and Capitalism, 15th-18th Century, Vol. III: The Perspective of the World*, (New York: Harper and Row Publishers, 1984), pp. 471-73.

where peasants and larger landholders sold parts of their produce to urban residents. These markets also provided an important opportunity for the nomads to come into contact with both peasants and the urban population. Large sectors of the rural population came to use coinage, especially the small denominations of silver akçe and the copper mangır, through their participation in these markets.[3]

The growing density of population during the sixteenth century thus increased the density of exchange not only in the urban areas but also incorporated large segments of the rural population into this process. The Balkans and Anatolia were certainly not unique in this respect. As Braudel has pointed out, the same trend towards more frequent use of markets and money by large segments of the population also prevailed in the western Mediterranean region.[4] While the developments in the western Mediterranean have drawn considerable attention from the historians, the social and cultural as well as economic implications of this trend are yet to be adequately studied in the case of the eastern Mediterranean.

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

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[3] S. Faroqhi, 'The early history of Balkan fairs', *Südost-Forshungen* 37 (1978), 50-68; S. Faroqhi, 'Sixteenth century periodic markets in various Anatolian sancaks', *Journal of the Economic and Social History of the Orient* 22 (1979), 32-80; and S. Faroqhi, 'Rural society in Anatolia and the Balkans during the sixteenth century', *Turcica* 9 (1977), 161-96, and 11 (1979), 103-53; and İnalcık, 'Osmanlı idare', 1-91.
[4] Braudel, *Mediterranean World*, vol. I, pp. 355-461.

usurious transactions was a powerful feature shared around the Mediterranean during the Middle Ages, both by the Islamic world and Christian West.[5] 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 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

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[5] 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.

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.[6]

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 funds to finance larger ventures, most importantly, long distance trade and tax-farming.[7]

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

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[6] 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.
[7] 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.

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.[8]

III- Rise of a Centralized State, 1450-1580

During his thirty year reign, Mehmed II (1445 and 1451 to 1481) successfully built from an emerging state dependent upon the goodwill and manpower of the rural aristocracy an expanding empire with a large army and bureaucracy. As a result, the central government began to control a larger share of the resources and revenues at the expense of the provinces. A number of harsh measures were used during this process. In addition to higher taxes, state monopolies were established in basic commodities such as salt, soap and candle wax and their sale to private merchants. Land and other properties in the hands of private owners or pious foundations (*vakif*) were confiscated. A policy of forced colonization and tax concessions was used to bring skilled artisans and other immigrants from Anatolia and the Balkans to reconstruct and repopulate the capital city of Istanbul. Finally, very detailed laws were issued to control and regulate the daily economic life in the leading cities of the empire, Bursa, Edirne and Istanbul. The

[8] J. E. Mandaville, 'Usurious piety: the cash waqf controversy in the Ottoman Empire',

interventionism exhibited by the central government in fiscal, economic and monetary affairs during this period was unmatched in later periods.

The revenues of the central treasury increased considerably as a result of these measures. The treasury also benefited from the territorial conquests of the period and the extraction of one-time or annual tributes from vassal states, often paid in gold ducats. Not all of the new revenues were immediately spent, however. In the absolutist logic of Mehmed II, a strong treasury was also a means of power and independence for the ruler. The central government thus followed a policy of accumulating large reserves in the treasury. Budget surpluses and accumulation of reserves contributed further to the fiscal strains and shortages of specie being experienced by the economy and society at large.[9]

The reign of Mehmed II was also unique in Ottoman history in terms of government attitudes towards debasements. The silver content of the akçe had changed very little from the 1320s until the 1440s. During these three decades, however, debasements were used as regular policy to finance costly military campaigns and expand the role of the central government. Between 1444 and 1481, the silver content of the Ottoman unit was reduced by a total of 30 percent through debasements undertaken every ten years. The basic reason for the periodic use of debasements by Mehmed II was to raise

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International Journal of Middle East Studies 10 (1979), 289-308.

[9] İnalcık, Halil, "The Ottoman Economic Mind and Aspects of the Ottoman Economy," in Michael Cook (ed.), *Studies in the Economic History of the Middle East*, Oxford University Press, 1970, pp. 207-18; B. A. Cvetkova, 'Sur certain reformes du regime foncier du temps de Mehmed II', *Journal of the Social and Economic History of the Orient* 6 (1963), 104-120. N. Beldiceanu, 'Recherches sur la Reforme Fonciere de Mehmed II', *Acta Historica* 4 (1965), 27-39.

revenue for the central treasury. The debasements thus complimented increased taxation and other fiscal measures adopted by Mehmed II to concentrate a greater share of the resources at the center, support the growing needs of an expanding bureaucracy and a central army as well as finance the military campaigns.[10]

Mehmed's harsh fiscal measures and strong interventionism met with strong discontent if not opposition. One important source of the discontent was the ulema who lost control of larges sources of revenue when the pious foundations. The owners of the privately held lands (*mülk*) which were expropriated by the state joined them. Similarly, the nomads, warriors and aristocrats of the frontier areas who had regularly joined the military campaigns and contributed to their success were also opposed to increased centralization and taxation. Nonetheless, Mehmed II was able to continue with these policies until the end of his reign through a combination of increased power at the centre and the success of his military campaigns which resulted in considerable territorial expansion and booty for many of the groups involved. In the longer term, the opposition of the janissaries and other groups to the policy of periodic debasements contributed to the stability of the akçe. After the death of Mehmed II, his son Bayezid II was forced to reconcile with and seek the support precisely of those groups that his father alienated during his long and forceful reign. In addition to returning the assets of some of the pious foundations and lands expropriated by his father, he promised to end the policy of debasements. During the following century, akçe returned to the

[10] Sevket Pamuk, *A Monetary History of the Ottoman Empire*, Cambridge University Press, 2000, pp. 47-58.

stability it had enjoyed before the reign of Mehmed II. The weight and silver content of the akçe changed very little from 1481 until 1585.

IV- State Economic Policies

To understand Ottoman economic policies or practices, it is necessary to examine the nature of the Ottoman state and its relations with different social groups. After the successful centralization drive of Mehmed II in second half of the fifteenth century, 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.[11] 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

[11] 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*'. Cipolla, "Currency Depreciation," p. 397 and Udovitch, "Merchants and *Amirs*," 53-72.

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 examined the economic functions and priorities of the central bureaucracy based on years of research on the archives of the central government.[12] 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 the control of the intercontinental trade routes became increasingly important and even critical for these needs.[13] Foreign merchants were especially welcome because they brought goods not available in Ottoman lands. Ottoman encouragement of European merchants and

[12] Genç,"Osmanlı İktisadi Dünya Görüşü"; for a similar argument see Halil İnalcık, "The Ottoman Economic Mind and Aspects of the Ottoman Economy," in Michael Cook (ed.), *Studies in the Economic History of the Middle East*, (London: Oxford University Press, 1970), pp. 207-18; and Halil İnalcık, "The Ottoman State: Economy and Society, 1300-1600", pp. 44-54.

[13] Halil İnalcık, "The Ottoman State: Economy and Society, 1300-1600", pp.48-52 and 179-379; also Palmira Brummett, *Ottoman Seapower and Levantine*

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.[14]

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.[15]

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

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Diplomacy in the Age of Discovery, (Albany: State University of New York Press, 1994), pp. 131-174

[14] Halil İnalcık, "İmtiyazat," *Encyclopedia of Islam, Second Edition*, (Leiden and New York: E. J. Brill, 1971); and İnalcık, "The Ottoman Economic Mind".

[15] İnalcık, "The Ottoman Economic Mind"; and Bruce Masters, *The Origins of Western Economic Dominance in the Middle East: Mercantilism and the Islamic Economy in Aleppo, 1600-1750*, (New York University Press, 1988), chapter VI.

twelfth through the fifteenth centuries.[16] The contrasts between Ottoman and European economic policies emerged during the era of mercantilism in Europe.[17] 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.[18]

Genç points out that a second priority of the centre 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

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[16] 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.

[17] 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; also Inalcik, "The Ottoman Economic Mind", p. 215.

[18] 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.

was placed at 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 favourably since it would lead to the rapid disintegration of the existing order.[19]

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 profiteering often led to shortages of basic goods 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.[20]

In pursuit of these priorities, the Ottoman government did not hesitate to intervene in local and long distance trade to regulate the

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Hebert *A History of Economic Theory and Method*, Mc Graw Hill, (New York: 1990), pp. 42-72.

[19] Sabri F. Ülgener, *İktisadi İnhitat Tarihimizin Ahlak ve Zihniyet Meseleleri*, (İstanbul Üniversitesi İktisat Fakültesi, 1951), pp. 92-189.

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

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 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.[21]

Genç's scheme is quite useful in analyzing the priorities and intentions of the Ottoman bureaucracy. At the same time, however, it carries the danger of presenting a picture of comprehensive and successful interventionism, or even a command economy in the pre-modern era as the Ottoman reality. To provide a more realistic picture, it is thus necessary to distinguish priorities and intentions 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 states in the late medieval and early modern periods. They did

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[21] 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* 1/5 (1942-43), 326-40; 2/7, 15-40; and 2/9, 168-77.

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 (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 has 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.

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.[22] 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.[23]

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 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.

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[22] 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 and Quataert (eds.), *An Economic and Social History of the Ottoman Empire*, pp. 179-87.

[23] 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,

Secondly, interventions in the economy did not necessarily mean that the government succeeded in bringing about the desired outcomes. Pre-modern states did not have the capability to intervene in markets comprehensively and effectively. These limitations were 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 and interest rates.[24] Ottoman administrators were well aware that participants in the money markets, merchants, money changers and financiers were able to evade state rules and regulations more easily than those in the commodity markets. Observing the mixed success of government actions, they learned that interventionism in money markets did not always produce the desired results.

V- Tax Collection and Internal Borrowing during Decentralization, 1580-1780

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

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Izmir and the Levantine World, 1550-1650, (Seattle: University of Washington Press, 1990).

[24] Spufford, *Money in and Its Use*, passim ; S. D. Goitein, *A Mediterranean Society, The Jewish Communities of the Arab World as Portrayed in the Documents of the Cairo Geniza, Vol. I: Economic Foundations*, (Berkeley and Los Angeles: University of California Press, 1967), pp. 209-272.

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.

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 *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.[25]

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.[26] 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.

In the longer term, further deterioration of the state finances increased the pressures on the central government to take greater advantage of the tax-farming system for the purposes of domestic borrowing. 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.

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[25] Halil Inalcik, and Donald Quataert (eds.), *An Economic and Social History of the Ottoman Empire, 1300-1914*, Cambridge University Press, 1994, pp. 212-14.

[26] 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.

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.[27] 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. The timing of this shift is interesting as it came at a time when the central government was in the midst of an extended period of wars against a powerful alliance of the Habsburg, Poles and Russians in the west following the unsuccessful siege of Vienna in 1683.

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 that joined the bidding in the tax-farming auctions, there often existed a partnership that included including 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 sub-contractors. Non-Muslims were

[27] 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.

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 a Islamic business partnership involving both Muslims and non-Muslims.[28] 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 based 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.[29] 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

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[28] Çizakça, *A Comparative Evolution of Business Partnerships*.

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 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.[30] The central government thus began to experiment with other methods for tax collection and domestic borrowing as state finances came under increasing pressure from the 1770s onwards. 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.[31] 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.

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[29] Ariel Salzman, "An Ancien Regime Revisited: "Privatization" and Political Economy in the Eighteenth Century Ottoman Empire", *Politics and Society*, Vol. 21, 1993, 393-423.
[30] Genç, 'A study of the feasibility'.
[31] 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.

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 *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.[32]

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

[32] Cezar, *Osmanlı Maliyesinde Bunalım*, pp. 128-34, 198-200.

the underlying economy (GDP) in the late eighteenth century to 5 to 6 percent by the middle of the nineteenth century and to 10 to 12 percent on the eve of World War I.[33] (See Graph 1)

The evolution of Ottoman tax collection institutions during the seventeenth and eighteenth centuries 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. This pragmatism and flexibility also provides important clues for understanding the longevity of the empire as well as the key position of the central bureaucracy until the end. In order to remain at the top, the central bureaucracy was thus willing to share the tax revenues with the provincial groups during the seventeenth and eighteenth centuries until it was able to re-assert itself in the nineteenth century.

It also appears that the Ottomans were willing to borrow or adapt European fiscal institutions well 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 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

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[33] In Graph 1 the central government's share of tax revenues appears low for the sixteenth century as well because the significant amount of tax revenues spent in the provinces to sustain and equip cavalry and foot soldiers as part of the *timar* system discussed earlier are not included in the calculations.

about rapid changes not only in the institutions of private finance but also in those of public finance.[34]

During the war of 1787-92 the government also considered the possibility of borrowing from abroad, from France, Spain or Netherlands, which would have been a first for the Ottoman state. The Dutch government indicated in 1789 that it was not in a position to lend and referred the Ottoman government to the private sector. However, due to the difficulties in Europe arising from the French Revolution and the reluctance on the Ottoman side, this possibility was not pursued any further. Another proposal was to borrow from Morocco because it was a friendly Muslim country, but it soon became clear the resources of that country were quite limited. From the late eighteenth century until the 1840s, extraordinary wartime taxes and the expropriation of the wealth of prominent individuals, especially of those who had accumulated their wealth in the service of the sultan continued to serve as additional means of raising fiscal revenue.[35]

VI- Second Wave of Fiscal Centralization at the Dawn of the Modern Era, 1780-1850

The reign of sultan Mahmud II (1808-1839) was a very difficult period for the empire and the central government. During these three

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[34] 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 D. R. Weir, 'Tontines, public finance and revolution in France and England, 1688-1789', *The Journal of Economic History* 49 (1989), 95-124; and F. R. Velde and D. R. Weir, 'The financial market and government debt policy in France, 1746-1793', *The Journal of Economic History* 52 (1992), 1-39.
[35] Cezar, *Osmanlı Maliyesinde Bunalım*, pp. 89-92, 137-38.

decades the government was forced to deal with a series of uprisings, nationalist revolutions and wars abroad. While it was able to suppress the various uprisings of notables in both the Balkans and Anatolia, the Serbian and Greek revolutions led to the secessions of these territories from the empire. Much more costly to the state finances than any of these was a series of wars against Russia (1806-1812 and 1828-29), Iran (1820-28) and Egypt (1831-33 and 1838-39).

This was also a critical period for Western style, centralizing reform. Attempts at military reform had begun earlier, during the reign of Selim III (1789-1807), but progress had been limited due to the opposition of the janissaries. These efforts gained momentum after the abolition of the janissaries in 1826. As the size of the new army (*Nizam-i Cedid*) rose from a mere 2,000 around the turn of the century to 120,000 in the late 1830s, pressures on state finances increased.[36] Roughly speaking, about half of the budget expenditures were allocated for military spending from the late eighteenth until the 1840s; this share was considerably higher during periods of war.[37]

Another important and difficult task was the reorganization and modernization of the bureaucracy. The strategy of the reformist and centralizing sultan Mahmud II (1808-1839) was to eliminate the intermediate authorities both in the capital and the provinces. As the reform movement began to spread beyond the military arena in the 1820s, to administration, justice, and education, however, the demands for resources increased as well. Precise budget figures do not exist, but recent estimates suggest that after adjusting for inflation,

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[36] S. J. Shaw and E. Kuran Shaw, *History of the Ottoman Empire and Modern Turkey, Vol. II, 1808-1975*, (Cambridge University Press, 1977), pp. 1-54.
[37] Y. Cezar, *Osmanlı Maliyesinde Bunalım*, pp. 244-80.

the expenditures of the central government increased by 250 to 300 percent, from about 18 million current kurush or 2 million ducats at the end of the eighteenth century to about 400 million current kurush or 7 million ducats at the end of the 1830s. To deal with changes of such magnitudes constituted a financial task of enormous proportions for the central government. As a result, one of the key goals of the reform process was the re-organization of state finances and greater centralization of the revenues. As part of these efforts the multi-treasuries and budgets of the earlier era were gradually dissolved for the single budget system.[38]

The political and administrative capacities of the central government often determined the limits on fiscal revenue. Without an administrative network for tax collection, the government was forced to share tax revenues with the powerful groups in the provinces. In the 1820s, however, the central government began to undermine the powerful alliance between the high level bureaucrats and financiers in the capital and the notables in the provinces. As a result, it was able to exert greater control over the tax collection process. Through this centralization the state was able to increase the revenues collected at the centre roughly from 2 to 3 percent of total production in the 1770s to 5 to 6 percent in the 1840s. If greater share of the central government in economic resources can be taken as an indicator of modernization, these efforts can indeed be interpreted as the onset of the modern era for Ottoman state finances. (See Graph 1) Nonetheless, due to the costs military and administrative reform, the expenditures continued to rise at a faster pace. For this reason, the

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[38] Cezar, *Osmanlı Maliyesinde Bunalım*, pp. 235-301.

government was forced to devote a large part of its energies, from the late eighteenth century until the 1840s, towards developing new methods of long-term internal borrowing.

From the 1770s until the 1840s the Ottoman state finances frequently experienced large budget deficits. These deficits reached their peak during the 1820s and 1830s. In response, the state attempted to increase its control over revenue sources, made use of various forms of internal borrowing, and when the short term fiscal pressures mounted, resorted to debasements. The highest rates of debasement in Ottoman history took place during the reign of the centralizing and reformist sultan Mahmud II. The silver content of the Ottoman kurush or piaster declined by more than 80 percent from 1808 to 1844. Closely paralleling the debasement of the currency was the sharp fall in its exchange rate and the rapid rise in the general price level. The exchange rate of the kurush against the British pound sterling declined from 18 kurush per pound in 1808 to 110 kurush per pound in 1844. Indices constructed from the account books of the imperial kitchen and the account books of the pious foundations at Istanbul show that food prices increased more than 5 fold during the same period.

Debasements had impact on virtually all groups in Ottoman society, and in turn, each group took a position. Most men and women, both urban and rural, were clear about the consequences of different ways of dealing with the coinage, and who gained and who lost. The groups that stood to lose the most from debasements were those who were paid fixed amounts in terms of the unit of account. Most important groups in this category were the employees of the state, the bureaucracy, the *ulema* and especially the janissaries. There existed a large overlap between the guild members and the janissaries after the latter began to moonlight as artisans and shopkeepers in the seventeenth century.

Mahmud II was well aware of the limitations imposed by the janissaries and related urban groups. From the very beginning of his reign, he wanted to replace the janissaries with a western style army. During the early years of his long reign, however, he did not have the political support to make this critical move. After the janissaries were finally defeated and the order was abolished in 1826, a major constraint in the way of debasements was lifted. Only two years later, when another war broke out against Russia, the government began the largest debasement ever in Ottoman history.[39]

VII- External Borrowing, 1850-1914

For the Ottoman Empire the nineteenth century was a period of greater integration into the world economy brought about by rapid expansion in foreign trade and European investment. It was also characterized by major efforts at Western style reform aimed at the centralization of the empire, in administration, education, law and justice as well as economic, fiscal and monetary affairs. The Ottoman economy was increasingly transformed into an exporter of primary products and an importer of manufactures. The foreign trade of the areas within the 1911 borders of the empire, Macedonia, Anatolia and Syria, increased by about 15 fold between the 1820s and World War

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[39] Pamuk, *A Monetary History*, pp. 193-200.

I.[40] This process was facilitated by the construction of ports and railroads and the establishment of modern banking institutions, mostly by European capital. As a result, the commercialization of agriculture proceeded rapidly in Macedonia, western, northeastern and central Anatolia and along the Syrian coast. The rural population was drawn to markets not only as producers of cash crops but also as purchasers of imported goods, especially of cotton textiles. These developments substantially increased the demand for and the use of money, especially in these more commercialized regions.

For European governments and especially the British who were concerned about Russian expansionism to the south, the success of Ottoman reforms was considered essential for the territorial integrity of the empire. European governments also believed that rapid expansion of commercial ties with Europe based on the principle of comparative advantage and European direct investment were essential for the development of the Ottoman economy. The European governments linked Ottoman access to European financial markets to fiscal reform and monetary stability.

In the 1840s, under domestic and international pressure, the Ottoman government abandoned debasements and embraced bimetallism and stable coinage. It was hoped that this move would achieve greater price stability and help expand both trade and capital flows between Europe and the Ottoman Empire. The adoption of bimetallism did not mean the end of Ottoman monetary difficulties, however. The expansion of the empire's internal tax base by the

[40] C. Issawi, *The Economic History of Turkey, 1800-1914*, (University of Chicago Press, 1980), Chapter 3; and ª. Pamuk, *The Ottoman Empire and European Capitalism, 1820-1913: Trade, Investment and Production*, (Cambridge University Press, 1987), Chapter 1.

commercialization of peasant agriculture, the extension of cultivation on to unused lands and the development of other forms of primary production such as mining proceeded only slowly. Moreover, a large fraction of the revenues collected from peasant producers continued to remain in the hands of tax collectors. At the same time, military expenditures continued to mount. Ottoman governments had difficulties balancing the budget and resorted to a variety of methods, both short and long term, to deal with the fiscal problems.

One method of raising fiscal revenue which began to be used in 1840 was the printing and circulation in the Istanbul area of interest bearing paper money called *kaime*. Since their volume remained limited, the kaimes performed reasonably well until 1852. A new phase in the history of the kaime began in 1852 when paper money that did not bear any interest was put into circulation for the first time. During the Crimean War large amounts of kaime were printed and the market price expressed in gold liras declined to less than half the nominal value. One gold lira began to exchange for 200-220 kurushes in kaimes. In 1861 a record volume of kaimes flooded the markets and the exchange rate against the gold lira plummeted to 400 paper kurushes. The first experiment in paper money thus resulted, more than a decade after its initiation, in a major wave of inflation. With popular protests and general discontent, the government finally agreed to retire the kaimes in 1862 with the help of short term loans obtained from the Imperial Ottoman Bank.[41]

[41] Akyıldız, *Kağıt Para*, pp. 50-90; Davison, 'The first Ottoman experiment', p. 245; M. Erol, *Osmanlı İmparatorluğu'nda Kağıt Para (Kaime),* (Ankara: Türk Tarih Kurumu Basımevi, 1970), pp. 5-7.

There was one other occasion until World War I in which the government resorted to non-convertible paper money. After the Ottoman government declared a moratorium on external debt payments in 1876, it became impossible to borrow from the European financial markets or the Imperial Ottoman Bank. With the Serbian uprising and the outbreak of the War of 1877-78 with Russia, the need to fiscal revenue became even more urgent. Kaimes were issued in both small and large denominations and were proclaimed legal tender in all parts of the empire. Because of the large volume, however, the exchange rate of the kaime declined within two years, to 450 kurus for the gold lira. They remained in circulation for close to three years and were retired at the end of the decade.[42]

In 1854, during the Crimean War, the Ottoman government began to sell long-term bonds in the European financial markets and this soon became the most important means of dealing with the recurring budgetary difficulties. In the early stages of this process, the Ottoman government was supported by its British counterpart and wartime ally which guaranteed the first bond issue against the Ottoman annual receipts from the Egyptian tribute. In the following two decades, the Ottoman government borrowed large sums in London, Paris, Vienna and elsewhere under increasingly unfavourable terms. The net proceeds of these issues were directed almost entirely towards current expenditures, however. Only a small fraction was spent on infrastructure investment and on increasing the capacity to pay back. By the second half of the 1860s, Ottoman finances had deteriorated to the point where new bond issues had become

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[42] Akyıldız, *Kağıt Para*, pp. 91-174; Erol, *Osmanlı İmparatorluğu'nda*, pp. 15-27.

necessary to maintain the debt payments. A moratorium was in sight but the financial markets kept the process going lured by the unusually high rates of return.[43]

After the financial crises of 1873 led to the cessation of overseas lending by the European financial markets, the government was forced to declare in 1875-76 a moratorium on its outstanding debt which stood at more than 200 million pounds sterling. After protracted negotiations, the Ottoman Public Debt Administration (OPDA) was established in 1881 to exercise European control over parts of Ottoman finances and ensure orderly payments on the outstanding debt whose nominal value was reduced approximately by half during the negotiations. For the following three decades until the outbreak of World War I, a sizable share of government revenues were controlled by the OPDA and applied to debt payments. This control and the regular payments on the debt were quite reassuring for the European financial markets. As a result, the Ottoman government was able to resume borrowing towards the end of the century. With the rise in military spending, both external borrowing and the annual payments on the outstanding debt gained momentum after the turn of the century. The almost permanent search for new loans led, in turn, to new dependencies and complications in Ottoman foreign policy. On the eve of World War I, the volume of annual borrowing as well as the outstanding external debt had once again reached the unusually high proportions witnessed in the 1870s.

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[43] Christopher Clay, *Gold for the Sultan, Western Bankers and Ottoman Finance, 1856-1881,* I.B.Tauris Publishers, London, 2000; for an earlier treatment, see D. C. Blaisdell *(European Financial Control in the Ottoman Empire,* (New York: Columbia University Press, 1929).

It may be useful to consider the long term balance sheet for the mid-nineteenth century regime change from debasements to stable currency and external borrowing. Relative monetary stability, rapid expansion of foreign trade and European direct investment should appear on the positive side. Annual rate of growth of Ottoman foreign trade averaged close to 5 percent in real terms during the nineteenth century. There is also some evidence for economic growth in the period before World War I which can be linked to the growing commercialization of the Ottoman economy.[44] Monetary stability undoubtedly contributed to economic growth. At the same time, however, the default of 1875-76, the establishment of the Ottoman Public Debt Administration and the surrender of some of the leading sources of revenue to the European creditors in 1881 also suggest that the Ottomans paid a heavy price for borrowing large amounts from abroad before putting their fiscal house in order.

Conclusion

For most of its 600-year existence, the Ottoman Empire is best characterized as a bureaucratic, agrarian empire. The economic institutions and policies of this large entity were shaped to a large degree by the priorities and interests of a central 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. Despite the general trend towards

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[44] Eldem, Vedat, *Osmanlı Imparatorlugu'nun Iktisadi Şartları Hakkinda Bir Tetkik*, Iş Bankası Yayinları İstanbul, 1970, pp. 302-309; Osman Okyar, 'A new look at the problem

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 policies.

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 channels of capital accumulation. Despite their interests in trade, agriculture and manufacturing, tax-farming remained the most lucrative enterprise for them. Key economic institutions of the Ottoman order such as state ownership of land, urban guilds, provisionism and selective interventionism remained mostly intact during this period. 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. Pragmatism, flexibility, willingness to negotiate, ability to adapt their institutions to changing circumstances were thus traits that enabled the Ottomans to retain power while managing a transition to modern centralism. Ultimately, however, pragmatism and flexibility was utilized by the central bureaucracy for the defence of the existing order and of its own position.

This essay examined the long term changes in the Ottoman fiscal institutions from the sixteenth century until World War I from this perspective of pragmatism, flexibility and selective institutional change. It focused on the changing Ottoman strategies and institutions in dealing with tax collection, debasements, internal and external

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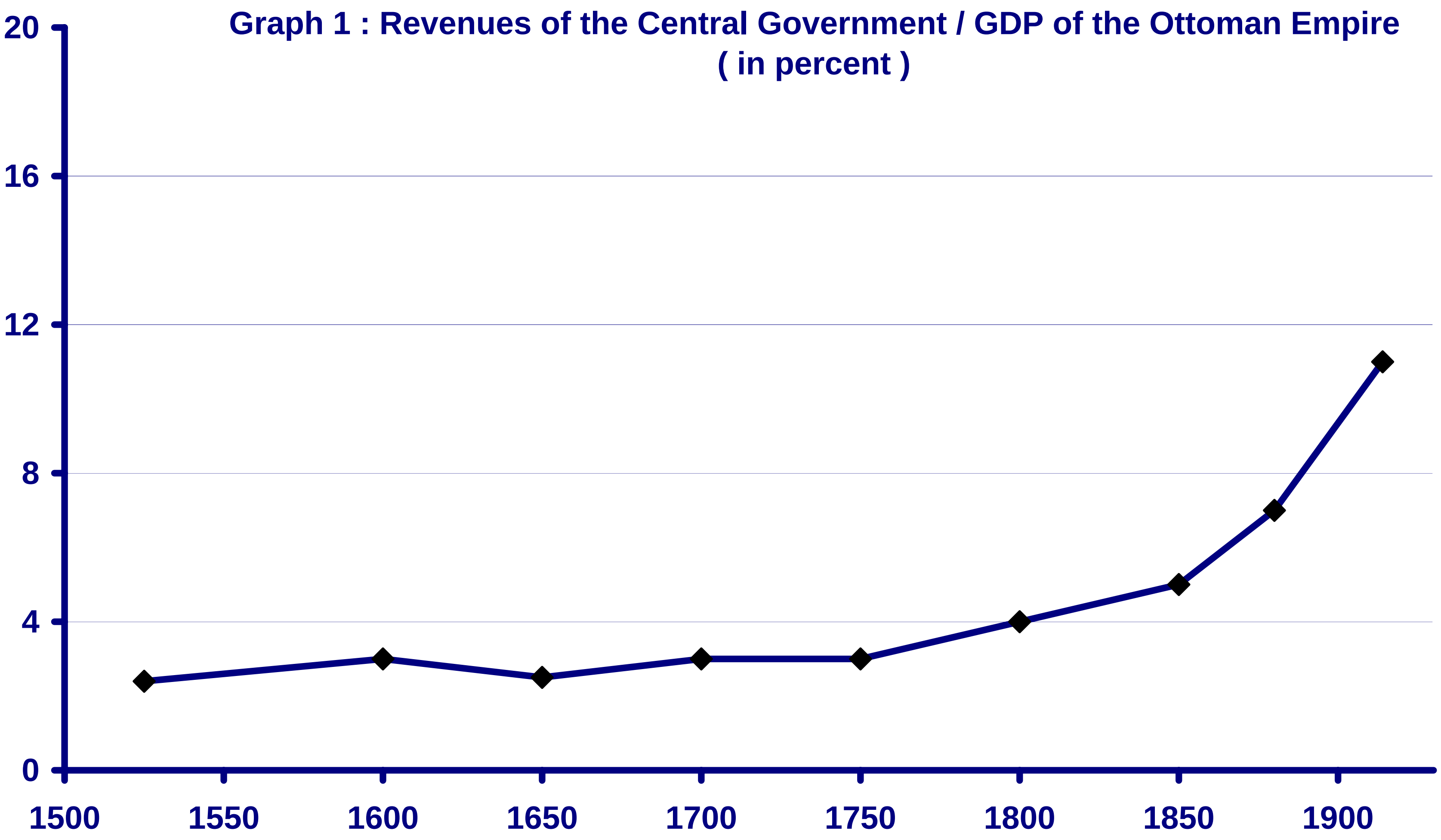
of economic growth in the Ottoman Empire, 1800-1914', *The Journal of European* borrowing. Ottoman institutions of private and public finance retained their Islamic lineage and remained uninfluenced by the developments in Europe until the end of the seventeenth century. State finances were in good shape and there was little need for borrowing during this early period. The Ottoman government continued to rely on tax-farming for both tax collection and short term borrowing purposes as had been the practice of most Islamic states. The capacity of the Ottoman state to collect taxes remained limited during the seventeenth and eighteenth centuries. It was forced to share the tax revenues with various intermediaries, both in the capital and the provinces. As a result, state finances came under a good deal of pressure, especially during periods of war. Fiscally motivated debasements were used rather frequently during these periods. In response to the fiscal problems, new instruments for public borrowing began to emerge during the eighteenth century. Even though the central government was able to increase the ratio of tax revenues to GDP from about 3 percent to more than 10 percent after the centralizing reforms of the nineteenth century, state finances remained under pressure until the end of the empire. State borrowing in the European financial markets led to a default in the 1870s and partial control of state finances by European creditors until World War I.

Economic History 16 (1987), 7-49.


Graph 1 : Revenues of the Central Government / GDP of the Ottoman Empire
(in percent)
20
16
12
8
4
0
1500
1550
1600
1650
1700
1750
1800
1850
1900