The economic policy of the Ottoman Empire (1876-1922)

Ecchia, Stefania

University of Salerno, Italy

2010

Economic Policy at the end of the Ottoman Empire (1876-1922)

Stefania Ecchia*

1. Introduction

This article covers the last phase of the Ottoman Empire: the Abdul Hamid II's reign from 1876 to 1908 and the Young Turks period from 1908 until the dissolution of the Empire.
At the beginning of the period under consideration, the Ottoman economy – scarce in labour and capital, rich in land – was open to world capitalism and its specialization in agriculture had advanced considerably[1]. This was the result of a season of reforms (*Tanzimat*) enacted by the Ottoman government since the second quarter of the nineteenth century, with the aim of modernizing and centralizing the Empire following the example of Western institutions.
The Great Powers supported these reforms as long as they paved the way to the opening of the Empire to foreign trade and investment and in exchange for their promise to support Ottoman territorial integrity and political sovereignty. In the same period, however, the Ottoman Empire was experiencing a severe deterioration of its finances that led to a slowdown in the implementation of the reform policy and exposed the state to progressive territorial losses. At the same time, the surrender of some of the richest provinces of the Empire caused a further reduction in the total government revenues[2].
The Ottoman fiscal crisis which led to bankruptcy in 1876 and to the subsequent establishment of the Ottoman Public Debt Administration in 1881, was rooted in the lack of any central administration of the financial system. The first Minister of Finance was ap-

JEL Codes: N15, N25, N55. Keywords: Ottoman Empire, Public debt, Taxation.

* Assistant Professor in Economic History, Department of Theory and History of Institutions, University of Salerno. E-mail: stecchia@unisa.it.

1 Quataert D., *The Ottoman Empire, 1700-1922*, Cambridge University Press, Cambridge 2000, pp. 128-132.

2 Du Velay A., *Essai sur l'Histoire financière de la Turquie*, A. Rousseau, Paris 1903, pp. 386-387.

pointed only in the 1837 and had no responsibility for preparing the public budget, the first of which was published in 1863, or ensuring a balance between income and expenditure: usually the Sultan's ministers jointly agreed on the sum to be allocated to each government department without rendering any kind of account to the Minister of Finance; furthermore, each ministry issued new bonds to pay for its own expenses as need arose, and corruption was widespread. Until 1880, there was no department of audit and account. Strictly dependent on this lack of organization were the following: a decentralized and inefficient tax collection system that caused large losses of revenues to the Treasury; an excessive amount of expenditures for the maintenance of the bureaucratic apparatus and for the private needs of the Sultan; an inefficiently high level of external indebtedness[3].

The Ottoman government signed its first foreign loan agreement in 1854, soon after the start of the Crimean War. The high cost of the military campaign could not be met through the short-term fiscal expedients usually adopted to bridge the gap between revenues and expenditure – such as the issue of paper money, the debasement of the currency and the borrowing at high interest from the financiers of Istanbul, the so called Bankers of Galata[4].

After two decades of borrowing, the proceeds of which were used mostly for military expenditure and for paying the principal and interest on the debt itself[5], the government was forced to declare a moratorium in debt payments due to a nominal outstanding debt of nearly £252 millions of British pounds. The burden this imposed on Ottoman finances can be seen from the fact that, by the time of Abdul Hamid' s accession, total estimated revenues of the treasury made up around 9% of this amount[6]. In 1874-75 the annual charges to meet this debt amounted to over half of the regular revenues of the public budget and represented nearly 60% of the total expenditures[7].

The beginning of the reign of Abdul Hamid was marked by two main events: the bankruptcy of 1876 and the Great Depression of 1873-1896. The bankruptcy itself was sparked by the Great Depression in two ways: first, the Great Depression led to the standstill of capital exports to the Ottoman state which could not arrange new loans for covering its

3 Owen R., *The Middle East in the World Economy, 1800-1914*, I. B. Tauris, London 2002, pp. 107-108.
4 *Id.*, pp. 100, 107.
5 *Id.*, p. 105.
6 Birdal M., *The Political Economy of Ottoman Public Debt*, I. B. Tauris, New York 2010, p. 54.
7 Blaisdell D. C., *European Financial Control in the Ottoman Empire*, AMS Press, New York 1966, pp. 76-77; Tezel Y. S., "Notes on the Consolidated Foreign Debt of the Ottoman Empire: the servicing of the loans", *The Turkish Yearbook of International Relations*, 1972, Table 1.

earlier debt payments; secondly, the Great Depression decreased the demand for Ottoman agriculture, a sector crucial for fiscal drawing and exports, also used by the government as a source of securities for borrowing.

Once the public debt was settled, Abdul Hamid and, later on, the Young Turks, realized that, to increase the state's revenues while not incurring further debts, the taxable capacity of the population had to be increased. The policy chosen was to promote economic growth, avoiding as much as possible any increase in the fiscal burden, and optimizing, by means of centralization, the system of tax collection[8].

In particular, Abdul Hamid enacted a policy of free trade and supported agricultural production and commerce by introducing reforms in the rural sector and by building transportation facilities. By contrast, the Young Turks coupled a protectionist commercial policy with projects specifically aimed to lay down the foundations of a modern economic infrastructure.

Plagued with a chronic lack of domestic capital and budget balance, the only means for the Empire to raise the funds for implementing the reforms and for building an adequate infrastructure was to keep borrowing from external sources[9].

My purpose is to illustrate briefly how the Ottoman government failed to get out of the external debt spiral that proved to be fatal to the Empire. To increase fiscal revenues, the Ottomans needed a stable inflow of funds to be invested in productivity-augmenting reforms, but the increasing external debt and military expenses left few resources available for implementing the same reforms, which in turn translated into additional difficulties in financing the public sector. This self-enforcing dynamics lies at the core of the Empire's final decline.

2. Revenues and expenditures

After the default and the subsequent settlement of the public debt under the supervision of the Ottoman Debt Administration (hereafter referred to as OPDA), Abdul Hamid and, later on, the Young Turks, sought to push further the reforms started with the *Tanzimat*. In fact, the total revenues increased from 5,600 in current Ottoman Liras in 1840-42 (at the beginning of the *Tanzimat*) to 16,000 in 1880-82 and 31,000 in 1913-14. In terms of taxation per-capita, the revenues increased from 0.22 in 1840-42 to 0.8 in 1880-82 and to 1.41 in 1913-14. The growth rate of GDP per-capita for the Ottoman Empire was between

8 Owen R., *The Middle East in the World Economy,* cit., p. 105.
9 Akarly E. D., "Economic Policy and Budgets in Ottoman Turkey, 1876-1909", *Middle Eastern Studies*, vol. 28, n. 3, 1992, p. 450; Owen R., *The Middle East in the World Economy,* cit., pp. 120-121.

0 and 1 percent per year during the same period. The ratio between fiscal revenues and Ottoman GDP was 4.3 in 1840-42, 10.0 in 1880-82 and 11.7 in 1913-14[10]. Since the Ottoman government was reluctant to increase tax rates, the increased fiscal pressure resulted mostly from more efficient means of tax collection. The long term annual rates of growth of Ottoman GDP per capita show that modern economic growth started in the Empire in the nineteenth century although these rates lagged behind those of industrializing higher income Western countries (Table 1).

The time series for the disaggregated actual revenues and expenditures are available only from 1887 to 1912. Before this date, only estimated values were collected. In this period, total expenditures of the Ottoman Empire rose at an average annual rate of 2.7% while total revenues grew at an average annual rate of 2.4%. Although the budgets of many state departments were cut substantially, increased expenditures, particularly for the army and servicing the external debt, left the treasury with a regular annual deficit. On the eve of the World War I, military expenditures constituted close to 40% of total government expenditures; almost 30% of Ottoman expenditures were absorbed by servicing the external debt. Administrative expenditures (which rose steadily due to the deeper penetration of the government into the provinces), public welfare, and services consumed the remaining funds available to Ottoman government[11] (Figure 1).

The actual data in the time series from 1887 to 1912 show that the main contribution to the revenues came from agriculture (tithe and animal tax) and from trade (custom duties on import, export, and transit.) Tithe revenues and animal taxes actually collected by the Ottoman Treasury rose respectively by 69% and 15% between 1887-88 and 1910-11, while, in the same period, revenues from customs duties increased by 144%[12] (Figure 2).

10 Pamuk Ş., "The Evolution of Financial Institutions in the Ottoman Empire 1600-1914", *Financial History Review*, vol. 11, 1, 2004, pp. 7-32; Id., "Estimating Economic Growth in the Middle East since 1820", *The Journal Economic History*, vol.66, 2006 , pp. 809-828.

11 Owen R., *The Middle East in the World Economy,* cit., p. 197 (Table 37); Shaw S. J., "Ottoman Expenditures and Budgets in the Late Nineteenth and Early Twentieth Centuries", *International Journal of Middle East Studies*, vol. 9, 1978, pp. 373-8; Id., "The Nineteenth-Century Ottoman Tax Reforms and Revenue System", *International Journal of Middle East Studies*, vol. 6, 1975, pp. 421-459; Shaw S. J. - Shaw E. K., *History of the Ottoman Empire and Modern Turkey*, vol. II, Cambridge University Press, Cambridge pp. 225-226, 285-286; Pamuk Ş., *The Ottoman Empire and European capitalism, 1820-1913: Trade investment and production*, Cambridge University Press, Cambridge 1987, p. 61.

12 Pamuk Ş., *The Ottoman Empire and European capitalism,* cit., p. 238.

3. Taxation of trade

With respect to the taxation of trade we can begin to say that from 1840 to 1913, Ottoman exports measured in current prices increased more than five times, while imports expanded six and half times[13]. The ratio of foreign trade to GDP raised from 9% in the 1840-42, to 21% in 1880-82 and to 29% in 1913-14. During this last period, foodstuffs and raw materials accounted for over 90% of Ottoman exports, whereas two-thirds of imports consisted of manufactured goods. One-quarter of total agricultural production was exported, which means that domestic trade accounted for the remaining 75%[14].

Since the Free Trade Treaties (1838-1841) with Britain and other European countries, the commercial policy of the Ottoman Empire had been characterized by free-trade which endured the entire reign of Abdul Hamid. In exchange for the opening of Ottoman markets, Europeans ensured military support to the Empire. The commercial treaties established and accelerated the trend for which the Ottomans imported mainly finished European goods and exported chiefly raw materials and foodstuffs (cereals but also cash crops).

The Treaties fixed the tariffs (*ad valorem*) on exports at 12% and on imports at 5%. Domestic merchants were subjected to the internal custom duty of 8%, while foreign merchants were exempted from it[15]. This resulted in an expansion of Ottoman external trade and in manufacturing decline under the competition of industrial imports: starting first in the coastal areas, the decline spread to the interior due to the development of the railways.

In response the international competition for agricultural products, duties on exports were gradually reduced to 1% in 1869 and remained at that level until World War I. Under the pressure of budgetary deficits and complaints from manufacturers, the Ottoman government changed its tax rates in 1860-1. Duties on imports were raised to 8% in 1861 and to 11% in 1907, but this measure neither halted the decline of domestic industry nor enriched the Ottoman Treasury. In fact, the additional revenues were devoted to the Public Debt Administration which would use 25% of them to pay off the debts of the Ottoman government. Under the request of the Europeans powers, the remaining 75% would be used to finance reform projects in the Macedonian provinces.[16]

As most of the agricultural production was traded internally, the Ottoman government relied more on domestic rather than foreign trade to obtain a stable flow of revenues. This explains why duties on overland commerce were abolished only in 1874 and duties on the

13 *Id.*, p. 23.
14 *Id.*, pp. 17, 26.
15 Issawi C., *The Economic History of Turkey*, The University of Chicago Press, Chicago 1980, p. 76.
16 Akarly E. D., "Economic Policy and Budgets in Ottoman Turkey", cit., pp. 454-456.

maritime transport of most cereals were removed in 1894[17].

From the Young Turks Revolution until the end of the Empire, the Ottomans implemented a more protectionist policy: internal duties were totally removed in 1909; duties on imports were raised to 15% in 1914 and in 1916 the uniform *ad valorem* tax was replaced by differentiated specific duties (with rates of 8% for foodstuffs and raw materials, 12% for partly manufactured goods and 16% for wholly manufactured good), but it was "too late, as it turned out, to help the Treasury and still too little to afford meaningful protection for Ottoman manufacturers"[18]. During the Allied occupation of Istanbul, a return to pre-war tariffs' conditions was decreed, but this decree was denounced by the revolutionary government. Under the Treaty of Lausanne of 1923, the regime of capitulations was abolished, the free trade treaties were discontinued and Turkey was allowed to maintain the 1916 tariff with adjustment for currency changes, until 1929, at which time it would have full tariff autonomy[19].

4. Taxation of agriculture

In regard to taxation in the agricultural sector, it should first be stressed that agricultural production constituted the primary source of revenues for the Ottoman treasury. Throughout its history, the Ottoman Empire remained an agrarian economy and the bulk of the population, usually 80-90%, lived on and drew sustenance from the land, mostly in family holdings rather than large estates. In 1914, agriculture contributed 56% of Ottoman national income[20].

Whether the growth in tithe revenues was chiefly due to the increase in agricultural production or to a reduction in the share accruing to the tax collectors or to higher tax rates is a matter for debate[21].

We can safely exclude that higher revenues were driven by increases in tax rates. After the Tanzimat Decree of 1839, the tithe was fixed at 10% of the gross agricultural output and remained fairly stable as the government did not intend to increase the fiscal burden of the peasant class, though the tax rate was raised temporarily during the Great Depression

17 Quataert D., "The Age of Reforms, 1812-1914", in H. İnalcik – D. Quataert, *An Economic and Social History of the Ottoman Empire*, vol. II, Cambridge University Press, Cambridge 1997, pp. 825-827.

18 *Id.*, p. 827.

19 Issawi C., *An Economic History of the Middle East and North Africa*, Columbia University Press, New York 1982, p. 22; Pamuk Ş., "The Ottoman Economy in World War I", in S. Broadberry – M. Harrison (eds.), *The Economics of World War I*, Cambridge University Press, Cambridge pp. 112-136.

20 Quataert D., "The Age of Reforms, 1812-1914", cit., p. 845.

21 Pamuk Ş., *The Ottoman Empire and European Capitalism*, cit., pp. 89, 240-241.

and World War I.

The scant statistics on production reveal very similar patterns to those shown by the tithe data suggesting that the improved taxable capacity of the rural population was by far a consequence of increasing production. Several factors – on the demand side, internal and external, and the supply side – help explain the growth in production. Demographic growth due to immigration, higher fertility, and lower mortality boosted the local demand of agricultural products; major cities – particularly, port cities – expanded considerably, providing larger markets for commercially traded agricultural goods and contributing to reduce the share of self-consumption. On the external demand side, a stronger foreign demand for Ottoman products drove increasing exports.

On the supply side, the Ottoman government adopted several measures to enhance production and productivity: (1) a program of compulsory sedentarization of nomads and their conversion into cultivators, which enlarged the labour supply, resulting in additional agricultural production; (2) better transportation facilities and a more developed infrastructure; (3) the establishment of model farms; (4) the encouragement of cash crops cultivation through distribution of seeds and experiments with improved machinery[22]; (5) the provision of technical assistance to the farmers; (6) the supply of cheap credit to peasants through the foundation in 1881 of the Agricultural Bank, the only indigenous bank until the twentieth century. In particular, this bank is proof of governmental efforts to finance economic modernization from internal savings: bank profits were to fund the Ottoman agricultural reform program. Nevertheless, the history of the bank clearly delineates the dilemma of Ottoman economic reform caught between the need for long-term development and the overriding urgency of immediate financial obligations. The state, in fact, borrowed heavily from the bank to resolve recurrent financial difficulties, using the profits originally devoted to the agricultural reforms[23].

However, most of the increase in agricultural production derived from bringing additional land under cultivation. In this regard, the role of the state was crucial because of the promulgation of the 1858 Land Code, one of the pillars of the Tanzimat reforms whose long-term effects on fiscal revenues are evident in the period under consideration.

First and foremost, the Code secured private title to the land for those peasants who maintained the land under cultivation and paid taxes regularly. By asserting the property rights of the peasantry, the Code promoted the extension of cultivated land and new in-

22 Quataert D., "The Age of Reforms, 1812-1914", cit., pp. 852-853.

23 *Id.*, cit., p. 872; Id., "Dilemma of development: The Agricultural Bank and Agricultural Reform in Ottoman Turkey, 1888-1908", *International Journal of Middle East Studies*, 6, 1975, pp. 210-227; Owen R., *The Middle East in the World Economy*, cit., pp. 117-118.

vestments which resulted in increased productivity and more revenues for the Treasury. Secondly, the Code contributed to fiscal centralization by the institution of the Cadaster, which was instrumental to taxing a higher percentage of agricultural producers. The government's attempts to centralize tithe collection by replacing tax farming with direct collection by salaried state employees were instead unsuccessful[24].

Yet, in the long run, thanks to the indirect promotion of cooperation between notables, who acted as local tax-farmers, and peasants, the positive effects of the Land Code on tithe revenues more than compensated the inefficiency arising from the decentralized system of tithe collection.

In actual fact, the definition of property rights on peasant land introduced by the Land Code persuaded local notables to give up over-taxation of the peasants and to consider the lands under their fiscal control according to long-term interests. The new legal setting made it more profitable for the local notables to grant loans to peasants and provided the same peasants with the correct incentives to use these funds to finance new investments and to act as small land-holders. Because of the increased volume of production, the notables were able to collect additional agricultural products to be commercialized in local markets and over long-distance trade routes. The fiscal benefit for the Ottoman central government was twofold: (1) higher bids in tax farming auctions from the capitalized value of higher agricultural productivity and (2) increased revenues from the duties on exports of agricultural products[25].

5. Balancing the budget: the role of the OPDA

Although tax base rose during the period under consideration, the additional revenues were insufficient to balance the budget deficit. After the default, the Ottoman government still depended on foreign capital for financing the reform projects. And every time a new loan was issued, it was backed by new guarantees consisting in more fiscal sources ceded to the OPDA for serving the public debt. On the eve of the World War I, roughly one third of the government revenues had been under the control of the OPDA[26].

The OPDA was established in 1881 by the Decree of Muharrem, as a separate Ottoman Treasury, to put an end to the acute financial difficulties of the Ottoman Empire through a reduction of almost 50% on the outstanding nominal debt but at the price of greater for-

24 Quataert D., "The Age of Reforms, 1812-1914", cit., pp. 854-856.
25 Ecchia S., *Sviluppo economico e innovazioni istituzionali nel distretto di Haifa sul finire dell'Impero Ottomano (1890-1915)*, Edizioni Scientifiche Italiane, Napoli 2008, pp. 268-269; 306-319.
26 Birdal M., *The Political Economy of Ottoman Public Debt*, cit., p. 7.

eign financial control[27].

The OPDA consisted of a seven-men council composed of the representatives of the six main national groups of bondholders - one each from France, Germany, Austria, Italy and the Ottoman government itself, and one representing both England and Holland - while a seventh was the delegate of the Ottoman Bank that held some specific bonds. The council's activity aimed at the direct administration of the revenues ceded to the service of the public debt until its liquidation. These revenues included some of the main indirect contributions of the Ottoman Treasury (the salt monopoly, the stamp and spirit duties, the fish tax and the silk tithe for a number of districts) and the tributes from several provinces. Initially, the OPDA also collected the tobacco tax but in 1883 it farmed this out to a foreign agency, La Société de la Régie Cointeressé des Tabacs de l'Empire Ottomane, for a fixed annual sum and a share of the profits. Within a few years, the OPDA was given the collection of many other revenues set aside specifically for the servicing of new foreign loans and the provision of financial guarantees to foreign railway promoters. On behalf of the Ottoman Ministry of Finance itself, the OPDA was also responsible for the direct collection of the customs surtax of 3% imposed in 1907[28].

The OPDA also influenced the monetary policy of the Empire that was basically driven by the need to supplement financial policy. In 1881, the representatives of the bondholders made it clear that to retain its access to the European financial markets, the Ottoman government would need to move from bimetallism, adopted in 1844, to gold standard. The imperial government accepted the OPDA's request as the external debt was denominated in gold and staying outside the gold standard would have dramatically raised the financial burden, also negatively impacting on the inflows of foreign capital. Otherwise, a fixed parity between the leading European currencies and the Ottoman lira would have provided commerce, capital movements and direct foreign investments with stability and security[29].

The foundation of OPDA in 1881 marks a divide in the financial history of the late Ottoman Empire, before and after the bankruptcy[30]. The most important feature of the first period, from 1854 to 1875, was the large volume of borrowing and the increasingly unfavourable terms of loans (even in comparison with the terms under which other non-

27 Blaisdell D. C., *European Financial Control in the Ottoman Empire,* cit., pp. 89-99.

28 *Id.*, pp. 94-97, 108-120, chapter 6; Owen R., *The Middle East in the World Economy*, cit., p. 193.

29 Pamuk Ş., "From Bimetallism to the Limping Gold Standard: The Ottoman Monetary System in the Nineteenth Century", in Cottrell P. L. (ed.), *East Meets West – Banking, Commerce and Investment in the Ottoman Empire*, Ashgate, Aldershot 2008, pp. 11-24.

30 For a detailed analysis of foreign capital flows see Pamuk Ş, *The Ottoman Empire and European Capitalism*, cit., chapter 4.

European governments borrowed in European financial markets during the same period)[31]. During the years 1882-1913 there was the reversal in the direction of net funds flows as a result of European financial control. Debt payments were more than twice the amount of fund inflows from external borrowing. At the same time, this close financial control reduced the risk associated with new Ottoman bond issues in European financial markets, lowering rates on new borrowing. The years 1882-1913 can be further divided into two sub-periods, 1882-1901 and 1902-1913. Given that in both periods debt payments exceeded inflows from new borrowing by a large margin, new borrowing remained limited until 1901. This early period was relatively peaceful for the Empire. Budgetary deficits began to grow once again after the turn of the century due to military expenditures. By the early 1910s, Ottoman finances had returned to the stage before bankruptcy: only because of the outbreak of World War I, another default did not take place[32] (Table 2).

The effect of the OPDA on the Ottoman efforts to balance the budget is debated. Though regarded as the outpost of the European financial imperialism and as a means to seize some of the major Ottoman fiscal sources[33], the Ottoman fiscal policy benefited from the new institution under several aspects. First, the OPDA's administrative policies yielded significant increases in the revenues obtained from indirect contributions: 176% over the 30 years following its establishment[34]. Initially, the Decree of Muharrem prevented the Ottoman Government from obtaining any share of the revenues collected by the Administration, however they might be increased[35]. But with the amendment of 1903, the maximum amount permitted for the repayment of the pre-1881 debt was annually fixed, leaving any surplus to be divided between government and OPDA in the ratio 75:25. The positive effect of this amendment on the Ottoman revenues is evident, as they increased at higher rate just after 1903[36] (Figure 3).

31 For a comparison, see Wynne W. H., *State insolvency and Foreign Bondholders*, vol. II, New Haven 1951.

32 By the end of the Empire, the Ottoman debt amounted to 161 millions of gold Turkish Liras. With the Lausanne Peace Conference the Ottoman external debt was renegotiated and apportioned to all successor states. Suvla R., "Debts during the Tanzimat period", in C. Issawi (ed.), *The economic History of the Middle East*, The University of Chicago Press, Chicago 1966, p. 106.

33 Morawitz C., *Les finances de la Turquie*, Guillaumin, Paris 1902; Roumani, *Essai historique et technique sur la Dette Publique Ottomane*, M. Giard, Paris 1927; Blaisdell, *European Financial Control in the Ottoman Empire*, cit.; Du Velay, *Essai sur l'Histoire Financière de la Turquie*, cit. See also, Eldem E., "Ottoman Financial Integration with Europe: Foreign Loans, the Ottoman Bank and the Ottoman Public Debt", *European Review*, 13, 2005, pp. 431-445.

34 Birdal M., *The Political Economy of Ottoman Public Debt,* cit., p. 106.

35 Blaisdell D. C., *European Financial Control in the Ottoman Empire*, cit., pp. 97-99; Ducruet J., *Les capitaux européens au Proche-Orient*, Presses Universitaires de France, Paris 1964, p. 104.

36 In exchange for this concession, the OPDA secured a stronger involvement of the Otto-

Second, the discipline of the OPDA made order in the Empire's finance, functioning as a model of efficient fiscal and financial management and as a main contributor to the modernization of state entrepreneurship which was to form the future backbone of the early republican economy[37].

Third, the credibility of the OPDA reduced the risk associated with bond emission, lowering rates on borrowing, increasing the value of shares in the public debt as quoted on the major financial markets[38] and creating a safer environment for new foreign loans and European investments directed mainly to infrastructure such as railroads and ports with the purpose of expanding trade between Europe and the Ottoman Empire[39].

According to the aims of Abdul Hamid and the Young Turks, these investments were to foster the recovery of the Ottoman economy. The railroads, in particular, by reducing costs of transportation between the interior and the major ports and urban markets, could open up uncultivated lands to agriculture making the price of the grain of these regions more competitive. This resulted in additional tithe and customs revenues for the central government.

The flip side of the benefits from OPDA's administration was an increased temptation for the government to act on moral hazard, a problem that could lie at the core of the enduring budget difficulties experienced by the Ottoman Empire. The valuable guarantee and credibility offered to the European investors by the OPDA, not to mention the surpluses that were ceded to the Empire after the 1903, lowered the incentives for the Ottoman government to implement a more vigorous policy of reform in the financial and fiscal sectors and made easier to go on recklessly contracting new foreign debts, which almost led again to bankruptcy[40].

---

man government in preventing contraband traffic of goods like salt, avoiding a potential loss of revenues. Until then, the Ottoman government's action against smuggling had been rather ineffective since it would have taken costly measures without any profit. Morawitz C., *Les Finances de la Turquie*, cit., pp. 273-275.

37 Birdal M., *The Political Economy of Ottoman Public Debt*, cit., pp. 8-9. For example, among the financial innovations introduced by the OPDA, the author underlines the introduction of the double entry bookkeeping to state accounting that was later adopted by the Ottoman government as the standard accounting principle.

38 According to Owen, due to the most favourable terms of the loans, out of the total nominal sum borrowed between 1854 and 1874 (£T241,900,000) the Ottoman government only actually obtained just over half (£T127,570,000) while, out of the £T166,000,000 borrowed during the period 1881 to 1914, the government itself received £T147,000,000 or 89%. Owen R., *The Middle East in the World Economy*, cit., p. 104, p. 194; Suvla R., "Debts during the Tanzimat Period", cit., p. 104-106.

39 Pamuk Ş., *The Ottoman Empire and European capitalism*, cit., pp. 55-56; Cottrell P. L., "A Survey of European Investment in Turkey, 1854-1914: Banks and the Finance of the State and Railway Construction", in P. L. Cottrell (ed.), *East Meets West – Banking, Commerce and Investment in the Ottoman Empire,* cit., pp. 59-96.

40 Blaisdell, D. C., *European Financial Control in the Ottoman Empire*, cit., pp. 38-39.

It is also questionable whether the Ottoman Empire actually benefited from the massive inflow of foreign funds promoted by the OPDA in the railroad sector. On the one hand, tithe collection in provinces with railroads did in fact rise faster than elsewhere. On the other hand, these additional revenues could not cover the kilometric guarantee payments to foreign railroad companies. Moreover, in the same places reached by railroads, most of the local pre-industrial manufacturing activity was destroyed by the competition from European manufactures[41].

6. Conclusions

The reformist policies of Abdul Hamid and the Young Turks succeeded in introducing efficient Western institutions (property rights, state cadaster, gold standard to name a few) that provided certainty for economic activity and incentives to invest. These institutional innovations can be seen as the fundamental determinants of the economic growth in the late Ottoman period. Together with increased trade and direct foreign investments, they resulted in a deeper integration of the Empire in the world economy and led to a stable rate of growth in per-capita GDP, especially in those Eastern Mediterranean regions strongly linked to world trade[42]. The best performing institutions were those promoting an export-oriented, primary producing economy. Indeed, most of the growth in per capita output during this period was due to increases in agricultural output and exports. The late Ottoman economic growth has been described as agriculture or agricultural export – led growth[43].

Though the tax base rose during the period under review, these additional resources were

According to Owen, "the suspicion must remain that even the reformers themselves were not always completely serious, that their projects were often designed primarily to impress potential European donors", in Owen R., *The Middle East in the World Economy*, cit., p. 108. The same point of view is shared by Davison R. H., *Reform in the Ottoman Empire 1856-1876*, Princeton University Press, Princeton 1963, p. 80.

41 Owen R., *The Middle East in the World Economy*, cit., pp. 197, 214 (Table 46); Pamuk Ş., *The Ottoman Empire and European Capitalism*, cit., p. 134.

42 Pamuk Ş., "Estimating Economic Growth", cit., p. 823: Id., "The Evolution of Financial Institutions in the Ottoman Empire", cit., pp. 7-32.

43 Id., "Sources of long-term economic growth for Turkey, 1880-2005", *European Review of Economic History*, 12, 2008, pp. 393-430; Id, "Economic Growth and Institutional Change in Turkey before 1980", in T. Çetin – F. Yilmaz (eds.), *Understanding the Process of Economic Change in Turkey*, Nova Science Publishers, 2010, pp. 15-30; Id., "Agriculture and economic development in Turkey, 1870-2000", in P. Lains and V. Pinilla (eds.), *Agriculture and Economic Development in Europe since 1870*, Routledge Publishers 2008, pp. 375-96; Id., "The Ottoman Economy in World War I", in S. Broadberry – M. Harrison (eds.), *The Economics of War World I*, Cambridge University Press, Cambridge 2005, pp. 112-136.

insufficient to balance the chronic budget deficit that remained the Achilles' heel of the Empire. Despite such financial problems, an overall judgement on the economic policy of Abdul Hamid II and the Young Turks cannot be formulated without accounting for the substantial discontinuity in the economic policy occurring after the bankruptcy. While in the preceding period the Ottoman government borrowed to cover mostly unproductive expenditures, Abdul Hamid and the Young Turks were more aware of the necessity to implement radical economic reforms and borrowed funds to improve the productive capacity of the Empire.

This change of attitude towards the national economy testifies a tendency which was to be a founding trait of the new Turkish state. In the following decades, the Republic would carry the burden of the late Ottoman debt, but would also enjoy the benefits of the corresponding investments[44].

44 Akarly E. D., "Economic Policy and Budgets in Ottoman Turkey" cit., pp. 443, 462.

7. References

Akarly E. D., “Economic Policy and Budgets in the Ottoman Empire, 1876-1909”, *Middle Eastern Studies*, vol.28, 1992.

Birdal M., *The Political Economy of Ottoman Public Debt*, I. B. Tauris, London 2010.

Blaisdell D. C., *European Financial Control in the Ottoman Empire*, AMS Press, New York, 1966.

Cottrell P. L., “A Survey of European Investment in Turkey, 1854-1914: Banks and the Finance of the State and Railway Construction”, in P. Cottrell (ed.), *East meets West-Banking, Commerce and Investment in the Ottoman Empire*, Ashgate 2008.

Davison R. H., *Reform in the Ottoman Empire 1856-1876*, Princeton University Press, Princeton 1963.

Ducruet J., *Les capitaux européens au Proche-Orient*, Presses Universitaires de France, Paris 1964.

Du Velay A., *Essai sur l'Histoire financière de la Turquie*, A. Rousseau, Paris 1903.

Ecchia S., *Sviluppo economico e innovazioni istituzionali nel distretto di Haifa sul finire dell'Impero Ottomano (1890-1915)*, Edizioni Scientifiche Italiane, Napoli 2008.

Eldem E., “Ottoman financial integration with Europe: foreign loans, the Ottoman Bank and the Ottoman public debt”, *European Review*, 13, 2005.

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

Issawi C., *The Economic History of Turkey*, The University of Chicago Press, Chicago 1980.

Morawitz C., *Le finances de la Turquie*, Guillaumin, Paris 1902.

Owen R., *The Middle East in the World Economy, 1800-1914*, I. B. Tauris, London 1981.

Pamuk Ș. “The Evolution of financial institutions in the Ottoman Empire, 1600-1914”, *Financial History Review*, vol. 11, 2004.

Pamuk Ș., “From Bimetallism to the Limping Gold Standard: The Ottoman Monetary system in the Nineteenth Century”, in P. Cottrell (ed.), *East meets West- Banking, Com-*

merce and Investment in the Ottoman Empire, Ashgate 2008.

Pamuk Ş., "Sources of long-term economic growth for Turkey, 1880-2005", *European Review of Economic History*, 12, 2008.

Pamuk Ş., "Agriculture and economic development in Turkey, 1870-2000", in P. Lains and V. Pinilla (eds.), *Agriculture and Economic Development in Europe since 1870*, Routledge Publishers 2008.

Pamuk Ş., *A Monetary History of the Ottoman Empire*, Cambridge University Press, Cambridge 2000.

Pamuk Ş., "Economic Growth and Institutional Change in Turkey before 1980", in T. Çetin – F. Yilmaz (eds.), *Understanding the Process of Economic Change in Turkey*, Nova Science Publishers, 2010,

Pamuk Ş., "Estimating Economic Growth in the Middle East since 1820", *The Journal of Economic History*, vol.66, 2006.

Pamuk Ş., "The Ottoman economy in World War I", in S. Broadberry - M. Harrison (eds.), *The Economics of World War I*, Cambridge University Press, Cambridge 2005.

Pamuk Ş., *The Ottoman Empire and European capitalism, 1820-1913: Trade, investment, and production, Cambridge University Press*, Cambridge 1987.

Quataert D., "The Age of Reforms, 1812-1914", in H. İnalcik - D. Quataert, *An Economic and Social History of the Ottoman Empire*, Cambridge University Press, Cambridge 1994.

Quataert D., *The Ottoman Empire 1700-1922*, Cambridge University Press, Cambridge 2000.

Quataert D., "Dilemma of Development: The Agricultural Bank and Agricultural Reform in Ottoman Turkey, 1888-1908", *International Journal of Middle East Studies*, vol. 6, 1975.

Roumani, *Essai historique et technique sur la Dette Publique Ottomane*, M. Giard, Paris 1927.

Shaw S. J.and Shaw E. K., *History of the Ottoman Empire and Modern Turkey*, vol. II, Cambridge University Press 1977.

Shaw S. J., "Ottoman Expenditures and Budgets in the Late Nineteenth and Early Twentieth Centuries", *International Journal of Middle East Studies*, vol. 9, 1978.

Shaw S. J., “The Nineteenth-Century Ottoman tax Reforms and Revenue System”, *International Journal of Middle East Studies*, vol.6, 1975.

Suvla R., “Debts during the Tanzimat Period”, in C. Issawi, *The Economic History of the Middle East*, The University of Chicago Press, Chicago 1966.

Tezel Y. S., “Notes on the Consolidated Foreign Debt of the Ottoman Empire: the servicing of the loans”, *The Turkish Yearbook of International Relations*, 1972.

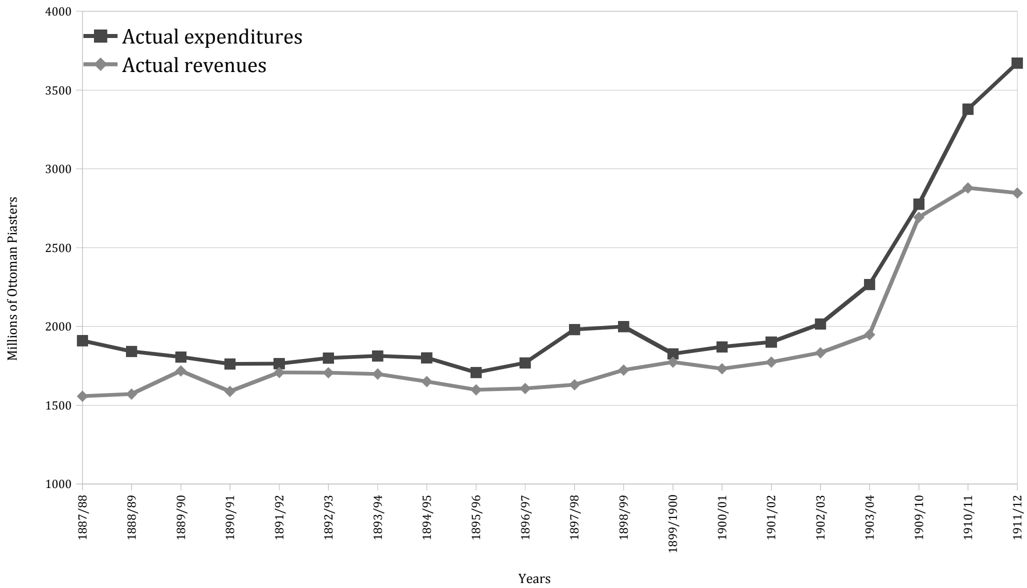
Wynne W. H., *State Insolvency and Foreign Bondholders*, Beard Books, Washington D.C. 1951.

Summary data, 1840-1914

	1840-1842	1880-1882	1913-1914
Population of the empire in millions	26	20	22
Total tax revenues of the central government in millions of current Ottoman liras	5.6	16	31
Tax revenues per capita in current Ottoman liras	0.22	0.80	1.41
Tax revenues per capita in 1913 Ottoman liras	0.38	0.96	1.41
GDP per capita in current Ottoman liras	5	8	12
Total GDP in millions of current Ottoman liras	130	160	260
Tax revenues / Total GDP	4.3	10.0	11.7
Imports in millions of current Ottoman Liras	6.23	16.94	43.34
Exports in millions of current Ottoman Liras	5.68	16.68	31.24
Foreign trade / Total GDP	9	21	29

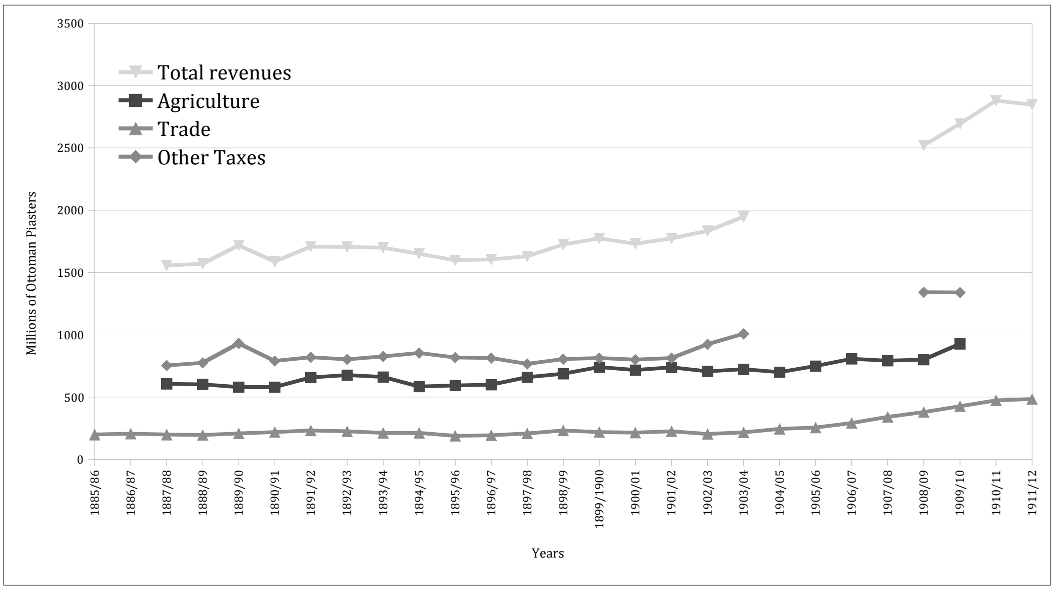
Source: Pamuk (2006).
Notes: £1 British Pound = 1.10 Ottoman Liras = 110 Ottoman Piasters. Revenues falling under the jurisdiction of the Ottoman Public Debt Administration are not included in the tax revenues.

Public budget, 1887-1912



Source: Shaw, 1978.

Revenues and main taxes, 1887-1912



Source: Shaw, 1975.

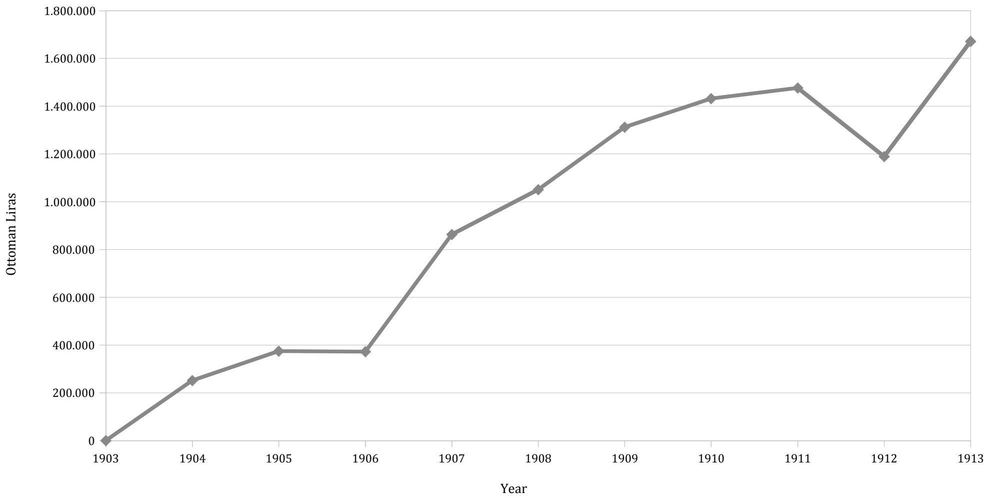
Notes: agriculture include revenues from tithe and animal tax; trade include revenues from custom duties on import, export and transit.

Funds flows arising from external borrowing, 1854-1914

	Net capital inflows	Principal and interest payments	Net fund flows
1854-75	4,660	3,108	1,552
1876-81	433	669	-236
1882-1913	1,783	3,748	-1,965
1882-1901	844	3,117	-2,273
1902-1913	3,347	4,801	-1,454
1854-1914 (Total)	180,619	196,437	-15,818

Source: Pamuk (1987).
Notes: Annual averages for each period in thousands of British pounds sterling.

The fiscal surpluses paid by the Ottoman Public Debt Administration to the Government, 1903-1913



Source: Wynne, 1951.