

## CHAPTER II

### THE BACKGROUND OF THE BORROWING

European financial control was instituted in the Ottoman Empire because of Turkish inability to administer finances in a manner satisfactory to Occidental tenets. Not unnaturally, Frenchmen and Englishmen who lent their money expected loans to be managed according to European fiscal principles. Aside from the fact that these principles demand a rigid adherence to the rule of punctual discharge of obligations (the importance of which was not apparent to Ottoman officialdom), internal conditions in the Empire precluded the possibility of honest and efficient handling of revenues. The twenty years preceding 1875, during which the pre-Decree foreign debt was contracted, were characterized by administrative disorganization throughout the Sultan's domains.

#### TURKEY HANDICAPPED BY INTERNAL CHAOS

The real authority in the vast extent of the Empire was in the hands of the high officials, usually *pashas* (generals in the army), who were the governors of the *vilayets* (provinces). Except the Sultan himself and the ministers of the central departments in Constantinople, these provincial governors were the most influential persons in the Empire. The *valis*, as they were called, were indeed the keystone of Ottoman administration. They were appointed by the Sultan himself, and were removable by him only. At the other extremity of the bureaucratic ladder were the subordinate provincial officials who were responsible in each province to the *vali*.

The *vali* was charged with the execution of the laws within his province, the administration of justice, and the collection of the taxes. In these matters his responsibility was great, but the temptations to which he was subject were even greater. There was constant opportunity to discriminate between Moslems and non-Moslems in the enforcement of laws relating to the inheritance and transfer of property. Trade and commerce within a province

were hampered according to the frequency and severity of arbitrary tax levies visited upon the non-Moslem elements, who controlled most of the trade. After 1856 the testimony of Christians was supposed to have been accepted in the courts of the Empire; yet within his province the *vali* was able, by properly exerted pressure, to bring this provision to naught.<sup>1</sup> The collection of the most important direct tax, the tithe, could easily be made his personal privilege, and here the chances for lining pockets were enormous. The energy and impartiality of a capable and conscientious administrator could be impressed upon the lower members of the bureaucracy. Just as easily could an unscrupulous and dishonest governor so influence the ranks of his subordinates as to preclude honesty and efficiency in local administration. In these key positions, therefore, good local government demanded the presence of skilled and scrupulous men.

Unfortunately, for the most part, the *valis*, even if skilled, were unscrupulous. In the selection of these officials influence and collusion at Constantinople were more powerful factors than personal integrity and administrative ability. Because of the opportunities for enriching one's self, these positions were eagerly sought by active, yet dishonest and scheming, members of the ruling class. Backstairs methods were the rule; traffic in these positions became a regular occupation of unofficial, yet powerful, retainers of the Sultan's court. When a *vali* was removed, the selection of his successor was, in the heyday of corruption, in effect a case of auctioning the office to the highest bidder. The necessity of procuring money to attain the position usually placed the successful person under obligations to a *saraf* (native banker). To his original desire to fill his pockets the governor had added the necessity of discharging financial obligations to his various official and unofficial backers. One of the two reasons for Turkey's existence, according to an English merchant in Constantinople, was "for the benefit of some fifty or sixty bankers or usurers, and some thirty or forty pashas, who make fortunes out of its spoils."<sup>2</sup>

The "Law of the Vilayets", of 1861, had intended to grant to the provinces a large measure of self-government, in which both

<sup>1</sup> Engelhardt, E., *La Turquie et le Tanzimat* (2 volumes, Paris, 1883-4), pp. 242-5.

<sup>2</sup> Cited in Senior, N. W., *A Journal kept in Turkey and Greece, 1857-58* (London, 1858), p. 84.

Moslems and Christians were to participate. In reality, however, the government of the Empire was centralized more than ever in the Sultan's hands. In effect this meant that opportunities were multiplied at Constantinople to exercise influence over the Sultan. The *valis* of the various provinces were in his undisputed power, while the *ex officio* official members of the local councils instituted by the Law secured a perpetual Moslem majority. "Under such a system, and the legal protection enjoyed through it by the Ottoman functionaries against evil consequences of their own misdeeds, corruption was rife throughout the Empire."<sup>3</sup>

Local government in the provinces was intimately related to administration of finances. The Sheriat, or Holy Law, prescribed the important taxes. Of these the tithe was the oldest and most firmly rooted in the life of the Empire. It could only be collected, however, in one of two ways. Either it could be apportioned among the various provinces and farmed to privileged persons for a fixed sum, or it could be collected directly by agents of the Treasury. In both systems there were almost insurmountable difficulties. The policy of farming the tithes had been followed for decades before the middle of the century, and it had been found that opportunities for corruption and dishonesty were many. The *vali* had often been the tithe farmer.<sup>4</sup> As he invariably possessed

<sup>3</sup> *Encyclopedia Britannica*, 11th Edition, Volume XXVII, p. 428.

<sup>4</sup> Theoretically, farming the tithes was abolished by the *Hatti-Humayoun* (Imperial Edict of February 18, 1856) which provided that "the law will enjoin any discrimination against individuals; the evidence of Christians is to be accepted in the courts of the Empire; the abuses in the collection of taxes will be corrected, and the tithes, instead of being farmed out as formerly, will be collected directly by agents of the Treasury. . . . The laws against corruption will be applied indiscriminately to all those who contravene them." Practically, this Edict had little effect in changing the earlier method of farming the tithe.

The *Hatti-Humayoun*, and the *Hatti-Sherif of Gulhané*, November 3, 1839, together with the laws and decrees promulgated to enforce them, are known collectively as the *Tanzimat*, or Series of Reforms. Together they formed the attempts made by Sultan Abdul Medjid (1839-61) and his ministers to improve the condition of the Christian elements of the Empire, and to reorganize generally the central and local administrations. A Western observer contributes this criticism of the *Hatti-Sherif*: "The motives that led to the framing of the *Gulhané* edict, and the project of thereby reforming the administrative system of the Ottoman Empire were doubtless praiseworthy. They were the creation of a benevolent and liberal mind, but not of a political economist conversant with the counter-prejudices and correlative position of the vast majority of his fellow-countrymen, or with the objects and restless ambition of the minority. Before changing the character of the connection between rulers and people

## 12 EUROPEAN FINANCIAL CONTROL IN THE OTTOMAN EMPIRE

friends in high positions, he could procure the privilege of collecting the tithe for a price low in comparison with that realizable at a real public auction. In collusion with a banker of questionable methods the *vali* would purchase the privilege at a farcical auction; the two would then collect sums from the taxpayers far out of proportion to the tithe for which they were legally accountable. The difference between the price paid for the privilege and that actually received from the taxpayers would be divided among the *pasha*, his *saraf*, and subordinate officials cooperating with them. The taxpayer could not make a complaint heard in Constantinople, once the central government had received the amount paid by the farmer; and, in attempting to complain to his provincial governor, the peasant would find himself face to face with the person who had taken from him more than the law stipulated.<sup>5</sup>

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individually, and, above all, before attempting to imitate foreign institutions, it was essential to have considered how far these changes and imitations were applicable to the subjects of the Sublime Porte." Charles White, *Three Years in Constantinople* (London, 1845), pp. 296-7. The texts of the two *Hattis* are to be found in Nouradounghian, G., *Recueil d'Actes Internationaux de l'Empire Ottoman* (4 volumes, Paris, 1878-1902), Volume II, p. 287, and III, p. 83.

<sup>5</sup> While traveling in Turkey Nassau Senior had the following conversation with an English resident in Constantinople: "It is absolutely impossible for a *pasha* to remain poor, unless he be absolutely indifferent to money. Reshid Pasha's palace and park on the Bosphorus are worth at least 200,000 pounds sterling; the land is worth perhaps 300,000 pounds. At the death of the last owner, who died without male issue, this property escheated to the Sultan, and was sold at public auction. Reshid was Grand Vizier, and bought it for 25,000 pounds. According to custom, no one overbid the Grand Vizier." When Nassau Senior asked what would have been the consequence had someone overbid him, the answer was: "It is useless to ask what would have happened under impossible conditions. An idea as strange as overbidding a vizier, or even a *pasha*, never enters anyone's head. Reshid was very generous in valuing these grounds at 25,000 pounds. He could have had them knocked down for a thousand." Senior, *op. cit.*, p. 101. The unenviable position of the taxpayer, both Moslem and Christian, is described in Du Velay, A., *Histoire Financière de la Turquie* (Paris, 1903), pp. 59-98; see also Georgiades, D., *La Turquie actuelle* (Paris, 1892), pp. 31-3.

Du Velay's *Histoire Financière* is a classic on Turkish finance. Written by a former official of the Ottoman Bank, and utilizing documents obtained from that source, the entire history of financial mismanagement, the breakdown of the system of taxation, reform and finance, and the story of the Public Debt Administration until 1903, is told in detail and with authority. The author maintains quite successfully an unbiased point of view, but it is evident that he sees conditions through European glasses. Unfortunately, the work has not been brought up to date. The other indispensable secondary source for the student of this subject is Morawitz, Charles, *Les Finances de la Turquie* (Paris, 1902). This likewise has not been brought up to date, is not so comprehensive as Du Velay, but

If the method of farming was not employed, the only alternative was the system of collecting the tithe *en régie*, that is, in kind, by Treasury agents. This course involved expense with which the central administration could not be burdened. A large organization of agents was necessary, and, what was more important, it was essential that this body of collectors be honest and efficient. Moreover, inasmuch as the tithe was collected in kind, there remained the expense of providing warehouses where the produce could be stored until a favorable time for its sale. Although the necessity of transforming the tithe into money was a process demanding absolute honesty, the opportunity for fraud by which a corrupt local administration could profit was ever present.

Besides the tithe the two other direct taxes were the tax on land and the head tax on non-Moslems. Here, too, favoritism in the designation of tax collectors together with discrimination between Moslems and non-Moslems, and between taxpayers of wealth and those of modest means, resulted in an inequitable distribution of taxation.

Nature itself emphasized the difficulties encountered in local administration. The extensive coastlines encouraged smuggling and the introduction of contraband. Topographic features were inhospitable; different sections of the country were separated by mountain ranges; the central Anatolian plateau was visited by periodic droughts and inundations. Distances were enormous. From the Bosnian frontier to the Persian Gulf is farther by four hundred miles than from Kansas City to New York, and mountains and deserts intervened. The African provinces were separated from Constantinople by wide stretches of sea and desert. These extensive territories and the lack of a satisfactory system of communication encouraged revolutionary movements. Parts of the Empire, like Egypt and Tunis, became tributary provinces with their governors practically sovereign. The European provinces were inhabited for the most part by minority races who welcomed the European sentiment of nationalism, and turned the Balkan question into an apparently inextricable tangle. Most of

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the descriptions of early financial conditions (prior to Mahmoud II, 1808-39) are extremely interesting and enlightening. Morawitz writes with wide knowledge of the Orient and introduces many interesting characteristics of the people, but his point of view is likewise European. He was for many years an official of the Anglo-Austrian Bank in Vienna.

## 14 EUROPEAN FINANCIAL CONTROL IN THE OTTOMAN EMPIRE

the rivers were short and swift, and unsuited to navigation and commerce. The topography of the country made it difficult and expensive to construct roads and highways. The development of maritime steam transportation drew traffic from the caravan routes which formerly connected the Arabian provinces with the capital. Remote sections of the country were unconnected with the sea ports and cities by roads suitable for quick travel. Lacking means of transportation, the Government could not readily move troops for the suppression of revolt. The Empire possessed few railways. Short lines like the Smyrna-Aidin, and Mersina-Adana lines, were constructed in the 1860's; Baron Hirsch's Orient railway was not constructed until the 1870's, and it was not until 1888 that Constantinople was linked by rail with central and western Europe. The German project for a trunk line across Anatolia to the Persian Gulf was not begun until the early years of the twentieth century, and even now (1929) is not completed.

### OBSOLETE METHODS AT CONSTANTINOPLE

The dishonest administration of the taxes in the provinces was matched by the lack of organization in the central ministry of finance. Prior to 1839 there had been no office of minister of finance. The highest fiscal official in the state was the grand treasurer (*defterdar*) who, as his title suggests, was more a general guardian of certain state funds than a person charged with the administration of revenue and expenditure. After the creation of the office of minister of finance, the duties for which its occupant was responsible were not comparable in any way with those of a modern finance minister. Although budgets were published after 1863, these were nothing more than vague estimates of what expenses and revenue might be. Indeed, it was impossible for them to be otherwise. The Civil List, or private income of the Sultan, was not the property of the state. It was under the control of a special minister, responsible to the Sultan only. If the monarch and his family desired to exceed it, they could do so with impunity. The minister of the Civil List realized that his tenure of office depended upon remaining in the good graces of his master; therefore, it behooved him to uncover sources of revenue to meet expenses not met by the Civil List. The extravagant tastes of Medjid and Aziz during the middle of the

nineteenth century necessitated a series of incumbents of this position ingenious enough to realize sums to meet royal demands.<sup>6</sup>

No less demoralizing was the use of drafts (*havalés*) to pay state bills. These were mere orders to pay, signed by the finance minister, issued on the revenues of different provinces. They were delivered by ministers of state to creditors and contractors and were often negotiated at a considerable discount. Favoritism among ministers and between ministers and creditors created the gravest abuses in this system. Moreover, certain ministries possessed special revenues that were in no way accountable to the minister of finance. Thus it was impossible to integrate the total estimated expenses of the state, and the finance minister was unable to balance revenue against disbursement.<sup>7</sup>

To add to this confusion of organization the state itself made grievous financial errors in attempting to provide revenues to meet constantly increasing demands. The Government purposely de-

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<sup>6</sup> A detailed account of the organization of the Treasury is given in Du Velay, *op. cit.*, pp. 38 *et seq.* The remnants of the old organization, and its duties, persisted into the twentieth century: "The ministry of finance (*malié*) is the modern counterpart of the old grand treasurer (*defterdar*). In the extent as well as in the nature of his attributes, the head of the ministry resembles this officer of the old régime, rather than a European minister of finance. Since 1881 relieved by the Public Debt Administration of almost all the responsibility for the service on the consolidated debt; since 1900 subordinated to the financial commission of Top-Hané [an offshoot of the Council of State established by Abdul Hamid II] for the solution of all important financial questions, and deprived of all effective control as a result; disturbed, moreover, in its internal functioning by a financial system which does not allow the finance minister to centralize receipts in his tills nor to control the expenditures of ministers by coördinating revenue and disbursements in a budget, the *malié* has become a correspondence and accounting bureau, concerning itself only with the means of meeting the daily expenses which fall upon it. . . ." Young, George (ed.), *Corps de Droit Ottoman—Receuil des codes, lois, règlements, ordonnances, et actes les plus importants du droit intérieur, et d'études sur le droit coutumier de l'Empire Ottoman* (7 volumes, Oxford, 1905-6), Volume V, pp. 14-17. The functioning of this extraordinary organization was rendered all the more difficult by an attitude described thus: "Respect for a fixed time of payment is a notion absolutely foreign to the Ottoman intelligence, which has an instinct as well as a taste for petty expedients, subterfuges, and deferments until the morrow or the following week. But one must not exaggerate the importance and gravity of the incidents which arise. On the whole, with more or less good will, after more or less delay, under more or less energetic pressure, Turkey pays what she owes." Morawitz, Charles, "The Public Debt of Turkey," in *The North American Review*, Volume CLXXV (August, 1902), p. 287.

<sup>7</sup> Young, *op. cit.*, Volume V, pp. 14-17; Morawitz, *op. cit.*, p. 67; Du Velay, *op. cit.*, p. 117; Charmes, J., *L'Avenir de la Turquie* (Paris, 1882) pp. 287-94.

based the value of the specie in circulation, issued large amounts of paper money with no reserve, and embarked on a policy of meeting annually recurring budget deficits by floating loans in the money markets of Europe, the interest and sinking funds of which increased from year to year and finally proved too heavy for the revenues of the Empire to carry.<sup>8</sup>

Such grievous errors might have been avoided and the obstacles inherent in the financial administration might have been overcome had there existed an intelligent, honest, and public-spirited group of civil servants. Here, too, all the conditions were against the forces of regeneration. The average of official intelligence was low. The professions of civil service and religious teacher appealed to those of the population who did not become soldiers or farmers. The Ottoman bureaucracy was permeated with inertia and shortsightedness. Capable subordinates when acting under rigid supervision, Turks proved to be good public servants; but it was essential that they be regularly and adequately paid, and that opportunities for dishonesty and intrigue be reduced to a minimum. But, as has been indicated, the faults and inherent qualities of the financial system encouraged dishonesty and deceit. The incentive of advancement hardly existed, as favoritism and influence determined the appointments to the higher positions, and only infrequently did ability and merit receive their reward. The salaries of the army and of civil servants were usually in arrears, and the only means of livelihood was to live off the country by *baksheesh* and dishonesty. Writing in the *Edinburgh Review* in 1854, a western critic observed that "the present state of things is a scramble for private advantages of the lowest kind, and the idea of public duty to the collective interests of the Empire has scarcely a representative in the service of the Grand Seigneur."<sup>9</sup>

With the Turkish population lived a group of communities composed of subject races, who had been granted special privileges under the direction of their religious officials. By factors of language, race, religion, and social custom, these groups were set apart from the Moslem population. Maladministration and the lack of an efficient and impartial judicial system encouraged the temptation to discriminate against them. Although it was for the

<sup>8</sup> Du Velay, *op. cit.*, pp. 55-8, 123-6; see also *infra*, Chapter III.

<sup>9</sup> Volume XCIX (January, 1854), pp. 282-314.



benefit of these populations that Europe had insisted on reforms, the absence of responsibility and initiative in high places continued much of the abuse existing before the attempts at reform.<sup>10</sup>

Two other factors reduced public spirit and sanctioned a policy of self interest. The Ulema, or body of religious teachers, expounders and interpreters of the Holy Law, set their faces against any reform in favor of non-Moslems. In their opinion it was contrary to the spirit of the Koran. The division between the faithful and the *giaur* (non-Moslem) was established by the Koran itself. Not only was the *giaur's* lot after death unhappy, but his condition on earth was likewise unfortunate because, by the prescriptions of the Koran, he was liable for the payment of higher taxes than his Moslem neighbor. To the Ulema, therefore, it was inadmissible that existing conditions could be changed, although impartial judgment would undoubtedly have established the existence of illegal excessive taxation on non-Moslem elements. An attempt to prove this in a court of law, however, would have been quixotic. True, the Christian elements were exempt from military service at this time, but invaluable as was this exemption to the non-Moslems, it was attributable to the belief that participation in the exploits of Turkish armies should be open only to disciples of the Prophet. Moreover, the Ulema was composed of persons of a circumscribed conservative outlook, trained in the fanatical mosque schools, and bound instinctively to combat liberal tendencies. This was likewise an attitude compatible with self interest, inasmuch as any liberal movement would tend to deprive the Ulema of its privileged position in the make-up of Ottoman society.<sup>11</sup>

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<sup>10</sup> The civil service was dominated by a characteristic which Morawitz, *op. cit.*, p. 28, describes as follows: "Complete forgetfulness of everything, the absorption of the soul by the body, the total absence of desire! It is blessedness in idleness, resignation to decay, lack of any movement whatsoever! What matters it that everywhere else science and progress are changing conditions of human life? Why look for change, since everything here is for the best in this best of worlds?" In another place the same author suggests that this form of logic existed: "Why go out of our way to pay to the state the taxes we have collected, when the state will but distribute them later in the form of salaries? Is it not much simpler for us to be paid directly by the taxpayers?" p. 28.

<sup>11</sup> It was, however, a public demonstration by the *Softas* (theological students) before the palace of Abdul Aziz in May, 1876, which brought home to this Sultan the tenor of public opinion, and led to his subsequent deposition.

Another factor which tended to vitiate reform was the character of the sultans. From the viewpoint of personal character, the Ottoman rulers of the nineteenth century compare not unfavorably with the members of the House of Othman who directed the fortunes of the Empire during the years following its heyday under Suleiman. But their most virtuous quality was in having good intentions, rather than in possessing strength of character sufficient to execute them. Mahmoud II (1808-39) has been accused of being insincere in his desire for reform. He did achieve, however, the destruction of the Janissaries and some reorganization in the army. His son, Abdul Medjid (1839-61), recognized the need of reform and was sincere in his promulgation of the Hatti Sherif; he was "good and merciful, but weak and unable to resist suggestions made by his entourage." His instincts were good, but he did not realize the promise of his youth.<sup>12</sup> He lacked physical force and moral energy, was extravagant in his tastes, and, during the latter part of his reign, became intensely fanatical. Even the extravagances of his reign, however, were surpassed by those of his successor, Abdul Aziz (1861-76). This ruler had a mania for building palaces, mosques, barracks, and public buildings. He pretended an interest in the reforms instituted during the reigns of his predecessors. Like Medjid, he was unable to recognize the signs of financial danger. He continued the issue of paper money until his Grand Vizier, Fuad, negotiated a loan to make possible its withdrawal. Some order was restored in finance by the energy of Kiami Pasha, an Egyptian functionary. This was quickly nullified by the continued indulgence of Aziz, who refused to believe in the gravity of the financial situation.<sup>13</sup>

One more factor, this of an economic character, contributed

<sup>12</sup> But "it must be recognized that Mahmoud was not supported by Europe in his attempts at reform. . . . The organization of a powerful army inspired distrust amongst neighboring states which were interested in seeing the Empire remain weak." Ganem, Halil, *Les Sultans Ottomans dans études d'histoire orientale* (Paris, 1902), p. 212.

<sup>13</sup> *Ibid.*, pp. 209, 247. Commenting on Aziz's palace building, the *London Times*, on September 30, 1863, said: "This is indeed a tendency to be regretted, and one that might well be the subject of a gentle remonstrance from the friendly advisers whom France and England have at court. . . . Unless an end be put to the habits of life which these elaborate buildings are the expression of there can never be any hope for Turkey under its present rule."

to retard the reform of the country. Europe, probably subconsciously, was interested that the economic status of the Ottoman Empire remain as it was. A Turkey largely agricultural and with few native manufactures would always be a consuming country. European industry and commerce were expanding at an enormous rate during the nineteenth century, and a consuming Turkey would offer a large market for surplus European manufactures. On the other hand, a Turkey with liberal movements, with education, and with the practical sciences developing natural resources and production, would mean that many needs of the population would be provided by products of home manufacture, and would diminish Europe's market accordingly.<sup>14</sup>

#### EXPANSION OF THE EUROPEAN ECONOMIC ORBIT

As a factor in the determination of foreign policy, the significance of funds invested in backward countries was not at this time fully appreciated. "Surplus" capital in western Europe, however, was a very important element affecting the Ottoman Empire of the nineteenth century. Perhaps it is the irony of history that created a large amount of European capital available for investment abroad at the very moment in Ottoman history that witnessed not only the failures to reform the degenerated internal administration of Turkey, but also the reign of vacillating and spendthrift rulers. In any event, the coincidence of these two phenomena, coupled with the interests of Europe, led to a condition which, until the birth of the Turkish Republic in 1923, consolidated European ascendancy in the economy and politics of the Ottoman Empire.

The industrial revolution was born in England during the end of the eighteenth and the beginning of the nineteenth century. It was during this period that the important inventions of spinning machines, power looms, steam engines, and new metallurgical

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<sup>14</sup> "If administrative reform had been accomplished in Turkey, it would have given a great impetus towards progress, and the Ottomans would have become a producing people instead of remaining essentially consumers and a tributary to Europe for manufactured goods. This is the motive which has inspired European policy for a century. It is neither noble nor enlightened, but it adapts itself to the economic needs of the peoples of the Occident and is in accord with their modern aims. It is an unworthy policy with no outlet towards an ideal, but eminently practical." Ganem, *op. cit.*, p. 212. The same point, applicable to the period after the institution of the Public Debt Administration in 1882, has been emphasized in a memorandum prepared for the author by J. E. Gillespie, of the American Embassy in Constantinople.

processes were made. The perfection of technique accompanying these inventions was carried forth in England at an astounding rate. Their development in England, Great Britain's natural wealth in coal and iron, and her superior merchant marine, gave to her industrialists a practical monopoly of the production and distribution of machine-made goods in Europe during the first three-quarters of the nineteenth century. The increase in the volume of manufactured products and the solution of difficult technical problems caused a large increase of capital for which its owners sought profitable employment. Early surpluses found their way back into home industry. The new free trade economy of the mid-nineteenth century, although it allowed greater expansion of home industry due to the ever-widening orbit of possible markets, was not sufficient, however, to allow of the profitable absorption of all the surplus capital produced. Hence large amounts became available for investment in new and undeveloped countries, or for the purchase of securities of foreign governments which sought the privilege of floating loans in Europe.

In preference to ploughing surpluses back into home industry at relatively low interest rates, British investors found in foreign issues more remunerative employment for these funds, both private and corporate. A writer in the *Edinburgh Review* notes this fact in the following language:

The main object of the new system of investments is to lend money abroad at a higher rate of interest than can be secured at home. . . . Thousands of men, who, under the old system [foreign investments reserved to a few, large, private firms] would rather have invested their money at three percent at home than risk it abroad at fifty, are now ready to place it abroad at fifteen, rather than keep it at home for five. Thus it is that a class of merchants which had hitherto been comparatively small has now been increased by an indefinite number of investors, who are not only willing but eager to add to their approved and traditionary investments a few shares of a more modern, less certain, but more remunerative character.<sup>15</sup>

Another factor which stimulated export of British capital was the development of the joint stock form of investment; this is the

<sup>15</sup> "Seven Percent," *Edinburgh Review*, Volume CXXI (January, 1865), pp. 223-51.

"new" system (it was, of course, not entirely new) referred to in the first sentence of the quotation just given.

. . . This growing availability and diffusion are the consequences of the new organization provided by the comparatively sudden and vast expansion of the joint stock system, and of the birth of so many financial companies capable of undertaking the largest operations. . . . Joint stock enterprise has been less anxious [than in the 1820's] to invent fancy branches of commerce, or to find mysterious and recon-dite sources of wealth, than to get the highest rates for their capital by lending it to foreigners. To satisfy the foreign demand for capital in all its forms seems to be the leading idea. To assist landowners by mortgage banks; merchants by discount establishments; governments and cities by loans, and generally to introduce capital into countries where the rate of interest habitually stood at twelve percent and often reached eighteen: such are the professed objects of the most prominent among the new companies.<sup>16</sup>

Modern industrial development in France dates from the third decade of the nineteenth century. In industry, at that time, France was still working with her hands when England was, by means of the new tools of the industrial revolution, turning out machine-made goods more rapidly and at a lower cost than could be done elsewhere. Not until the third quarter of the century did France experience a notable expansion in industry which made her a competitor of England in the world market. The period marked by the most rapid rate of development was that of the Second Empire, during which a free trade policy was followed after 1860. However, two-thirds of the population of France till the soil, and it is this group that for a century has been the source of the seemingly inexhaustible capital for which France is famous. Each peasant has been a capitalist, usually owning the farm on which he lives and, by virtue of his traditional thriftiness, able to accumulate enough cash to fill the bottom of a stocking. These modest savings, multiplied by the millions who compose the French agricultural element, have constituted the reservoir to which the nations of the world have come for capital. In 1860 the income of the agricultural class was estimated at an amount equal to nearly a billion dollars; this represented sixty-seven percent of the total

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<sup>16</sup> *Ibid.*

wages of the nation, and was four times greater than industrial wages.<sup>17</sup>

The significant fact is that England and western Europe were experiencing a remarkable expansion in finance, industry, commerce, and agriculture. The financial activity of the period is an index of the contemporary development in other fields. Commenting on the number of new government bond issues then in process of negotiation, the *Journal des Débats*, on March 24, 1862, observed that "At London and Paris there is sufficient credit for all the governments of the universe." In France, the decade following 1852 witnessed an increase in the length of railroads in operation from 3,800 to 11,000 kilometers, nearly 300 percent. During the same period, horse power in French industry mounted from 75,500 to 205,600. From 1850 to 1870 world marine tonnage propelled by steam advanced from 217,000 tons to 1,100,000 tons; total world tonnage, steam and sailing vessels, doubled during this period, increasing from seven million to fourteen million tons. The total length of railroads in operation in the world rose from 38,592 in 1850 to 206,651 kilometers in 1870. Average salaries of workers in ten French building trades increased from 43.00 francs weekly in 1853 to 68.10 in 1881. In England, the index number of salaries in the building industries was 57 from 1840 to 1849; between 1865 and 1870 it was 77 (100 for 1900). Savings establishments in France numbered eleven in 1829; ten years later they had increased to 264; within the following fifty years the number became 547 with 987 branches. On January 1, 1889, there were 5,364,000 subscribers to these institutions, with deposits totalling 2493 millions of francs, an average per depositor of 464 francs. Western Europe was being rebuilt, and as tools and methods she was employing the new discoveries of the industrial revolution and the principles of the science of finance. Europeans were working, saving, investing, and speculating.<sup>18</sup>

<sup>17</sup> Marshall, F., *Population and Trade in France, 1861-2* (London, 1862), p. 50. "No peasantry in the world pursue the acquisition of a piece of land with such restless perseverance as the French; the satisfaction of this desire is the great object of their existence. This thirst after property is universal in France; it shows itself in every class, but in none to so marked a degree as among the agricultural population who scrape up the means of satisfying it by years of willingly borne privation." *Ibid.*, pp. 52-3.

<sup>18</sup> Cauderlier, Em., *L'évolution économique du XIX<sup>me</sup> siècle* (Brussels, 1903), pp. 78 *et seq.* and sources there cited; Page, W., (ed.), *Commerce and Industry—An historical review of the economic conditions of the*

But the material evidences of this outburst of human energy are less important for the present purpose than the consequences which it produced outside the borders of western Europe, and it was in this connection that the Ottoman Empire was particularly affected. It was during the twenty years from 1854 to 1875 that Turkey borrowed over a billion dollars from Europe. In other geographical areas important sums also found their way into government bonds. Even before the middle of the century, Portugal and Spain had borrowed money in the London market. Likewise Argentine, Peru, and Honduras had come to Paris to partake of the rich bounty of surplus capital. The governments of these countries defaulted on their bonds, bankruptcy having resulted from the attempt to carry interest and sinking fund charges. Was the nineteenth century to witness the ascendancy of the idea of the sovereign national state, and was this victory to be tarnished by a series of state bankruptcies? Were the rulers of these new states too inept in their management of national revenues, and too naïve to realize the danger of defaulting on their bonds, when European money was at stake? In the African provinces of the Ottoman Sultan, the nominally dependent but actually sovereign rulers found it easy to borrow money, and difficult to acquit themselves of the contingent responsibilities. In the 1860's the Bey of Tunis followed this policy, and twenty years later was compelled to sign a treaty accepting French protection. During the same period English and French money was invested in Egypt, whose Khedive proved him-

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*British Empire from the Peace of Paris in 1815 to the declaration of war in 1914, based on Parliamentary Debates* (2 volumes, London, 1919), Volume II, Tables 1, 23, 56, 57, 66, 72, 121, 122; de Foville, A., "L'épargne en France," extract from the *Annales du Conservatoire des Arts et Métiers* (Paris, 1889), *passim*. "In the years between 1852-54 . . . France was in a most feverish state of industrial and speculative activity. Joint stock enterprises of every kind came before the public with subscriptions of shares; half the population devoted itself to Bourse speculations, and the national characteristic seemed to suddenly change, abandoning the habits of hoarding and solid investments for the sake of profits which suddenly tempted it in a new direction . . . Building went on in France with astonishing rapidity. In Paris, Lyons, Marseilles, and many other great towns, whole districts were covered with new houses. . . ." Marshall, *op. cit.*, pp. 137-8. "The Turkish minister of finance has left no stone unturned to obtain for the Treasury the best possible conditions, and his task has been facilitated by the plethora of money in the European markets, and by the readiness of capitalists to seize every opportunity for advantageously placing their funds. . . ." *Levant Herald* (Constantinople) quoted in the London *Times*, August 14, 1869; see also *infra*, Chapter IV, note 24.

self an even more extravagant spender than the Bey. In 1882 British troops were introduced into the country. Was the foreign loan becoming an instrument in the determination of foreign policy?

#### EARLY RESTRICTION OF TURKISH SOVEREIGNTY

Many years before the establishment of foreign financial control in 1882, the powers of Europe had obtained the right to interfere in other important spheres of Ottoman administration.

In point of time, Europe's position was established in 1535 by the treaty which Suleiman the Magnificent signed with Francis I of France, renewed and developed by Mahmoud I in 1740, and confirmed by other later treaties with France, as, for instance, those of 1802, 1808, and 1861. Their most important stipulations were three in number: the right of subjects of foreign governments who resided within the Empire to be judged according to their own laws and in the established consular courts; second, freedom from Ottoman taxation; lastly, limitation on the customs duties to be levied on goods of foreign origin. The first two of these provisions placed foreigners outside the law of the Empire; the third gave a privileged position to imports and eventually placed the bulk of trade in the hands of foreigners.<sup>19</sup>

France and Russia first claimed the right to protect Christian minorities, France originally by the treaty of 1535, which recognized her right to protect the Catholics in the Empire. Russia's claim was more doubtful, but, in any event, she claimed the right by virtue of the Treaty of Kuchuk-Kainardji (1774). These two powers fought the Crimean War for this privilege. Concerning the rights of the European Concert as a whole, "the gradation is evident. At first, foreign intervention is limited to the holy places, to their caretakers, and to foreign visitors. It is next extended to

<sup>19</sup> Eversley, G., *The Turkish Empire* (London, 1917), p. 287. The weak character of Sultan Medjid and of Sultan Aziz, and their pliability seem to Eversley to explain why Europe assumed the tutelage. This undoubtedly gave European diplomats in Constantinople an opportunity to assume leadership in the institution of reforms, etc. No time was lost, however, in placing Europe's privileged position under the sanction of treaties, which are of infinitely more durable character than the influence of diplomatic representatives. See also Engelhardt, E., *Le droit d'intervention et la Turquie* (Paris, 1880), and Brown, P. M., *Foreigners in Turkey—Their Juridical Status* (Princeton, 1914).



include the Catholic and Greek Orthodox faiths; and finally the protection of Ottoman Christians devolves on the Powers. . . . " <sup>20</sup> This last point was gained in 1856 by the Treaty of Paris, which guaranteed the integrity of the Empire itself. But an interpretation of Article 9, "which seemed to guarantee the independence of the Sultan with his subjects, on the contrary has been used by the cabinets of Europe to claim the right to restrain this independence insofar as its exercise might bring harm to the Christians of the Empire." <sup>21</sup>

In the negotiations which culminated in the Treaty of Paris Europe first obtained the right to interfere in Ottoman domestic administration. The Hatti-Sherif (Edict of November 3, 1839), which was the first attempt to define the rights of the Christian subjects, had been very vague. An article of the Protocol of Vienna, February 1, 1855, therefore, envisaged "the immunities of the Christian populations of the Empire." Lord Stratford de Redcliffe, British Ambassador at Constantinople, in January, 1856, dispatched a note to the Sultan's Government "making clear the necessity 'of including in the same chart' the religious privileges of the Christians *and the administrative reforms* which must reconstruct their social and political condition." <sup>22</sup> A month later, while the Paris Congress was in session, the Hatti-Humayoun (February 18, 1856) appeared, and by Article 9 of the Treaty of Paris the Sultan communicated this chart of reform to the powers. The chart contained a statement of "the religious privileges of the Christians and the administrative reforms" necessary to guarantee their security. European diplomacy, originally interested in protecting the minorities in the exercise of their religions, added the right to oversee the necessary administrative reforms. In effect this granted a right which could be exercised at any time, inasmuch as the minorities were widely scattered, and new methods of administration necessitated recasting much of the machinery of local government throughout the Empire.

In the field of finance the progress is no less patent. To begin with, a government which is prohibited by treaty from raising

<sup>20</sup> Engelhardt, *op. cit.*, p. 30.

<sup>21</sup> *Ibid.*, p. 40; for a detailed argument sustaining this position, see Du Velay, *op. cit.*, p. 113, where is cited the contention of d'Avril, Adolphe, taken from his *Négociations relatifs au Traité de Berlin*.

<sup>22</sup> Cited in Engelhardt, *op. cit.*, pp. 34-5. The italics are the author's.

its customs duties certainly has its fiscal powers qualified. In 1856 the Ottoman Bank was established, and a year later England claimed a substantial control over the operations of this institution.<sup>23</sup> Also in 1856, the Austrian Government, at the request of the Porte, dispatched a financial adviser, M. Lackenbacher, to assist in the proposed administrative and fiscal reform. Two years later, British and French delegates joined with the Austrian expert to form the consultative High Council of the Treasury. In June, 1860, this Council was transformed into a *Conseil Supérieur des Finances* to supervise the new financial administration. In three different loan contracts Turkey admitted the principle of having representatives of the holders of the bonds on the commissions to administer the revenues ear-marked for their service.<sup>24</sup>

The period from 1875 to 1882 is too full of influences exerted on Ottoman ministers in regard to finance to allow of treatment here. To strengthen this brief statement of the attitude of Europe, it may be added that it was at the instigation of the Russian Ambassador, General Ignatieff, that Mahmoud Nedim Pasha, the Grand Vizier, suspended the service on the foreign debt in 1875. The Congress of Berlin exercised sufficient pressure on the Porte for the Administration of the Public Debt to be set up in 1882. During the last two decades of the nineteenth century a series of loans were floated with the aid of the Public Debt for the purpose primarily of railroad construction. In almost every case the administration of these loans was confided to the Council or to the Ottoman Bank. In 1896 the Russian Ambassador dispatched a note to the Sublime Porte calling to its attention the sanctions of the Decree of Mouharrem.

In truth Europe's attitude was that of a tutor: "Turkey is in tutelage," wrote the Duc Décazes, French Foreign Minister, on January 10, 1876. Three years later Lord Derby uttered the same opinion, "The daily surveillance of which Turkey is the object in her domestic affairs has reduced her sovereign authority to practically zero."<sup>25</sup>

<sup>23</sup> Its functions were very limited, however, as compared with those following the reorganization in 1863, and the extension of its privileges in 1875. See *infra*, Chapter IV.

<sup>24</sup> *Infra*, pp. 28-29, 40, 50-1.

<sup>25</sup> Cited in Engelhardt, *op. cit.*, p. 61.