

## CHAPTER III

### INCREASING OTTOMAN INDEBTEDNESS

In spite of frequent wars, of inefficiency in the system of taxation, and of the corruption for which it was famous, the Ottoman Government did not resort to foreign loans to supplement state revenues until the middle of the nineteenth century. At this time, however,

the poverty of the Treasury was extreme and the Government was reproached for collecting the taxes through bankers who absorbed the greater part. No one went back to the real causes of the crisis. They can be put under three heads: a weakened monetary system, absence of budgetary control, and a wasteful administrative organization.<sup>1</sup>

#### LEGITIMATE LOANS INAUGURATE THE PROCESS

The earliest of Turkey's foreign loans were contracted with her allies, England and France, and were destined to meet extraordinary war expenditures necessitated by the struggle with Russia during 1853-56. Expedients which had been previously employed by the Government in moments of financial embarrassment were insufficient in this emergency. The sums needed for purchase of war material and for payment of troops were larger than the bankers in Constantinople, accustomed to granting short term advances to the Government, were willing to lend. A long term loan was the alternative. On August 4, 1854, Sultan Abdul Medjid issued a *firman* (edict) authorizing a loan of three mil-

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<sup>1</sup> Engelhardt, E., *op. cit.*, Volume I, p. 99. The economic result of this condition was constant depreciation of Turkish as compared with foreign money, and consequent public impoverishment. According to Engelhardt, "It is the influence of this disastrous decrease in public wealth to which the real decadence of the state must be attributed. Effectively bound by the Capitulations, and possessing no native industries, Turkey was compelled to import all manufactured goods; in exchange she traded her agricultural products, represented by an inferior currency which was continually losing its normal value, and the total resources of the country were reduced, therefore, in the same proportion." *Ibid.*, pp. 99-100. Interesting material concerning financial difficulties in Turkey is available in Belin, M., *Essais sur l'histoire économique de la Turquie* (Paris, 1865), pp. 262-6 and 309-11. Original sources are consulted by M. Belin in this work.

lion pounds sterling. The contract was awarded to Dent, Palmer, and Company, of London, and their Paris agents, Goldsmidt and Company. The interest rate was six percent, with one percent annual amortization, and the issue price was eighty.<sup>2</sup>

Underwriters' commissions and the low issue price decreased the receipts from this loan to half of the nominal amount. The sum realized by the Ottoman Treasury was inadequate to meet the demands of war. Less than a year later, therefore, another loan was necessary. On June 27, 1855, a contract was signed by the Turkish Government and the British and French Governments for the guarantee by the latter of the interest on a loan of five millions sterling, "the proceeds of which will be devoted to the pursuit of the war."<sup>3</sup> This guarantee of interest brought the most conservative bankers into the field, and the bid price reflected this competition. Rothschild of London floated the issue at a premium of two and five-eighths; interest was at the rate of four percent, with amortization one percent annually.

This transaction contained the seed of the idea of foreign control. In consenting to guarantee the loan, the British and French Governments demanded, as a sanction that the loan would be devoted to war expenditure, the right to designate two commissioners to exercise a control over the employment of the funds realized under the loan, and to verify the Treasury accounts. Lord Hobart was named as the British delegate, and the Marquis de Ploëuc as the French representative. They made a report to their respective governments, but Du Velay characterizes their activities in Turkey as "platonic" and observes that "to the same extent that the [Ottoman] Government showed a spirit of willingness to accede to the demands of the allied powers, it employed ruses and evasions to turn aside the two commissioners in their work of verification."<sup>4</sup>

<sup>2</sup> Details concerning this loan and the others referred to in this chapter have been taken from the following sources: *54th Annual Report of the Corporation of Foreign Bondholders* (London, 1928); Jenks, L. H., *The Migration of British Capital to 1875* (New York, 1927); Roumani, A., *Essai historique et technique sur la Dette Publique Ottomane* (Paris, 1927); Du Velay, *op. cit.*; and various publications of the Public Debt Administration itself, the most important of which are listed in note 1, Chapter VI.

<sup>3</sup> See the extracts from the House of Commons debate caused by the introduction of a Government bill to guarantee this loan, *infra*, Chapter IV, p. 62.

<sup>4</sup> *Op. cit.*, p. 143.

The successful conclusion of the Crimean War in 1856 relieved Turkey of further war expenses, and enabled her to devote herself to internal fiscal reform. Violently fluctuating prices were a source of unrest throughout the Empire. Not only was dissatisfaction produced among the peasants, but the Government itself was handicapped in estimating revenue and expenditure. Debased metallic currency together with large issues of paper money (*caimé*)<sup>5</sup> were the roots of the wide variation in prices. Partial improvement in the former was effected in 1842 by an issue of coins of good metal, an operation which followed the restriction of the use of the paper money to Constantinople and suburbs. Attempts made in 1851 to withdraw the *caimé* from circulation had been interrupted by the Crimean War. Indeed, during the course of this struggle the Government had been compelled to issue further amounts.

The withdrawal of the paper money was the object of the 1858 loan. Of the nominal total of five million sterling contracted for by the Government with the London firm, Dent, Palmer, and Company, the issuing house bought outright three million at eighty-five percent; the remainder was placed at sixty-two and one-half in 1859.<sup>6</sup> Annual interest and amortization rates were again six and one percent respectively. In the contract for this loan also was a provision for a modified foreign control. The octroi and customs duties of Constantinople were pledged as security for the service of the loan. According to the contract, these revenues were to be collected under the direction of delegates chosen by the bondholders. This provision was little more than a gesture, however, for lack of organization among the bondholders themselves caused it to remain unfulfilled.

The 1858 loan relieved the financial situation only temporarily.

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<sup>5</sup> This medium of exchange was first issued in 1839, bore interest at the rate of eight per cent, which was reduced in 1842 to six. Interest was payable in *caimé* itself. The disorders caused by the periodic issue and withdrawal of this paper money embarrassed the Government through the period of the Russo-Turkish War, 1877-78.

<sup>6</sup> The London firm of Dent, Palmer, and Company figures extensively in this period of Ottoman financial history. Private sources in Constantinople are responsible for the assertion made to the author that Mr. Palmer was sufficiently powerful to cause the downfall of one grand vizier who refused to succumb to Mr. Palmer's contention that the Imperial Treasury was in need of another loan. The succeeding prime minister was more amenable to the suggestion, and Mr. Palmer floated his loan.

Funds realized from this issue were sufficient to retire only a part of the paper money. The annual charges on the foreign debt were beginning to mount, already having reached nearly a million pounds sterling. In spite of an imperial edict promulgated by Abdul Medjid on August 26, 1858, in which rigid economies were prescribed, palace debts continued to assume large proportions, the commotion among imperial retainers caused by this decree proving only momentary, for it was violated with impunity by a favorite member of the Sultan's slave household who purchased jewels of unprecedented value immediately after the edict's promulgation.<sup>7</sup>

Abdul Medjid himself could not pose as an example for his palace followers. At this time he was in the midst of indulging his pet fancy of constructing palaces. The jewel of his collection was the superb building of Dolma Bagtché. The Sultan manifested sufficient interest in its cost to inquire concerning it of his minister of the Civil List. The figure supplied by this official, thirty-five hundred piasters (thirty-two pounds sterling), shocked the intelligence of the Sultan, until he was further informed that this sum represented the expense entailed by the Treasury in having issued promissory notes to the amount of the real cost of construction, 2,800,000 pounds sterling.<sup>8</sup> This extravagance prompted the following caustic comment from a Constantinople banker: "It is monstrous that the finances of a great empire should be ruined by the fantastic desires of a fool who, already having fifty palaces, wants to construct fifty more."<sup>9</sup>

Nevertheless, the following year a more or less emphatic gesture was made to rehabilitate imperial finances. Since 1857 a member of the Austrian Ministry of Finance, M. Lackenbacher had been delegated, at the request of the Sublime Porte, to consult with the High Council of Reform in its labors of administrative and fiscal improvement. In October, 1859, the Sultan ordered an investigation of financial conditions, and requested the British and French Governments each to name a representative. M. Falconnet, director of the Ottoman Bank, was delegated by the British; the Marquis de Ploëuc was the French commissioner.

<sup>7</sup> Morawitz, *op. cit.*, p. 28.

<sup>8</sup> Du Velay, *op. cit.*, p. 124.

<sup>9</sup> Senior, *op. cit.*, p. 108, quoted by Girardin, St. M., "La moralité des finances turques," in *Revue des Deux Mondes*, January 15, 1861, p. 471.

Together with M. Lackenbacher and four Ottoman officials, the British and French representatives were attached to the Ministry of Finance in a consultative capacity.

In this relation, however, the commission was unable to effect much improvement. The foreign commissioners were capable, no doubt, and were willing to be consulted concerning possible remedies for the situation. But the Ottoman Government showed little disposition of utilizing their services. On October 5, the patience of the foreign delegates having become severely tried, a communication was dispatched to their respective governments. This note expressed "regret to see that Turkey is not helping herself; that she is not proceeding to a gradual and forceful application of the reforms, and that sufficient initiative is not manifest to obtain the object of the Decree of 1856."<sup>10</sup>

As a result of this action the Imperial Government designated one of the foreign members to summarize the financial situation. When submitted to the Porte, this résumé formed the basis of a note to the interested powers, in which were presented details of the proposed financial reforms and a definition of the powers of the commission. This action failed to satisfy the British, French, and Austrian members, who desired their functions defined for them by the Imperial Government itself. The Government, however, past master in dilatory methods, always devised some excuse why this should not be done.<sup>11</sup> At a later date this commission was given greatly extended powers.<sup>12</sup>

#### BOLD SCHEMES FOR FOREIGN FINANCIAL CONTROL

The unwillingness of the Government to use the consultative commission to better the financial situation prompted several proposals for the surveillance of Turkish finance. In 1859, the British Ambassador at Constantinople, Sir Henry Bulwer, proposed that modifications should be effected in the laws regulating the holding by foreigners of real property in the Empire, that

<sup>10</sup> Cited in Du Velay, *op. cit.*, p. 115.

<sup>11</sup> Girardin, *loc. cit.*, pp. 477-8. Commenting on the strategy of sending a note based on the foreign commissioner's report to the powers, he says: "The Porte never thought for an instant of doing what the European note asked, that is, of creating a real authority which would proceed seriously and sincerely to the reform of Turkish finances." p. 479.

<sup>12</sup> *Infra*, p. 34.

certain of the lands belonging to the state should then be leased to a syndicate of foreigners, and, on the security afforded by these properties, bonds should be issued to raise sufficient capital to effect the desired administrative and fiscal reforms. The French Ambassador, Count de Lavalette, suggested an even bolder plan. He proposed the collective guarantee of a loan to the Sublime Porte by the signatories of the Treaty of Paris, and forwarded this plan to the representatives at Constantinople of the interested governments. Moreover, during the course of an interview with the Prince Regent of Prussia in 1860, the Austrian Emperor Franz Joseph suggested the idea of a collective guarantee of a loan by the federated German states.<sup>18</sup>

The French Ambassador's plan was the object of extended criticism in a dispatch from the Prussian Government to its representative in Constantinople, Count Goltz, under date of August 3, 1860. After reviewing general conditions in Turkey, the Prussian Foreign Minister continued:

Under these circumstances the idea of the French Ambassador at Constantinople relative to a loan guaranteed by the Great Powers has raised serious objections with us. Evidently any sum of money, no matter of what proportions, will accomplish no good, if it is delivered to an administration which has neither adopted nor put into execution the fundamental principles of political economy and continues its original system. It can be stated with certainty that such an administration would not only be unable usefully to employ the product of the loan, but also it would not be long before the necessary means would be lacking to meet interest and sinking fund charges. This act would place the governments of Europe in the difficult alternative of themselves meeting the obligations of the Ottoman Empire, or of taking coercive measures which would place the Empire in the greatest danger, and which would form a singular contrast to their good intentions.

The Prussian Foreign Minister was unable to recommend the project for legislative action, and, after remarking that it was probably in foreseeing the eventuality of default that the Marquis had made "as a condition of the guarantee that the Porte not only submit the administration of its finances to the control of agents

<sup>18</sup> Morawitz, *op. cit.*, p. 28.

of the Powers, but should even place them entirely in their hands", added: "It is difficult for me to believe that the Sublime Porte could consent to such a condition."<sup>14</sup>

All of these various plans were abortive, partly because of their impractical nature, but more because at this time there was little if any widespread feeling of the need of placing Turkish finances under foreign control.<sup>15</sup> The acceptance by the Imperial Government of any of these proposals would have implied tacit admission of its inability to manage its own fiscal matters. Moreover, revenues were coming in after a fashion; coupons of the early loans were being paid; and, if there was an indefinite, but persistent, undertone of skepticism concerning ultimate improvement, there was also the assertion that Turkey's "magnificent resources" would always be sufficient to pay interest on the foreign debt.<sup>16</sup> Also at this moment a diplomatic battle was being waged between the British and French Ambassadors at Constantinople to determine who should fall heir to the prestige and influence formerly possessed by the "Great Elchi", Lord Stratford, who had resigned his post as British Ambassador at Constantinople in 1858. The proposals of Sir Henry Bulwer and Count de Lavalette were part of this struggle. In any event, neither plan was pressed by the government whose representative had called it forth.

In the meantime, however, the financial situation had again become acute. The floating debt of four million pounds sterling, with interest at twelve percent compounded annually, doubled itself every six years. To eliminate or reduce this snowball-like obligation was necessary. The Government sought a reputable firm in London to float an issue to accomplish this object. But bankers in both London and Paris fought shy of the proposal. Finally, on October 29, 1860, a Parisian financial wizard of the day, M. Mirés, contracted to deliver to the Porte the proceeds of

<sup>14</sup> *Ibid.*, p. 29.

<sup>15</sup> But cf. Senior, *op. cit.*, pp. 109-10, where he cites the following statement of a Constantinople banker: "As much as I detest the idea of foreign interference in the domestic affairs of a country, just so much am I convinced that here is a point upon which the diplomatic corps should confer. The ambassadors should show the Sultan the necessity of fulfilling his promises, of establishing a civil list, and of keeping his expenditures within its limits. This is the most important clause of the *Hatti-Humayoun*."

<sup>16</sup> As, for example, are referred to *infra*, Chapter IV, pp. 63-4.

an issue of sixteen millions sterling, at an issue price of fifty-three and three-quarters. Supported by several of the more conservative Paris newspapers, such as the *Journal des Débats*, the public subscription achieved an initial success.<sup>17</sup> Rumors of irregularity in the employment of funds of his other companies, however, shook confidence in M. Mirés; the subscription was forsaken by speculating elements of the Bourse; and M. Mirés's arrest by the French Government pricked the bubble of confidence in the regularity of the transaction. Weakness appeared in other Turkish securities. Mistrust soon spread to the foreign exchanges, and Galata banks and business houses sought to realize on matured notes of the Ottoman Treasury. Turkish exchange on London and Paris broke under the pressure of heavy selling of discounted bills. In late December, exchange on Constantinople stood at 190 piasters to the pound sterling (par 110). To check the process the Ottoman Government sent a call of distress to London; the British Government responded by dispatching two members of the Board of Trade, Lord Hobart and Mr. Foster, to Constantinople to perform the inquest. A French writer in the *Revue des Deux Mondes* felt called upon to "state how widespread is the idea that Turkey needs to be placed 'en tutelle' by Europe."<sup>18</sup>

At this moment there were, however, some bright spots in the situation. In June, 1860, the advisory financial commission had been transformed into a *Conseil Supérieur des Finances* with powers which enabled it to coöperate with Lord Hobart and Mr. Foster in liquidating the evil results of the Mirés loan. True, ". . . the revenue was pledged for six months or a year in advance; but as those who got it in from the people lent it out again to the Government, things in a certain way at least went on."<sup>19</sup> A new Sultan, Abdul Aziz, who professed principles of retrenchment and economy, had succeeded Abdul Medjid on his death, June 25, 1861. The Government was utilizing the *Conseil Supérieur* to make a thorough-going examination of receipts and

<sup>17</sup> M. Mirés's letter containing the prospectus for this loan appeared in the December 8, 1860, issue of the *Journal des Débats*, and ran to three and a half columns of type.

<sup>18</sup> Girardin, *loc. cit.*, p. 473.

<sup>19</sup> Extract from a letter from Sir Henry Bulwer to Admiral Martin of the Mediterranean fleet, dated September 22, 1860, printed in Drummond Wolff, Sir Henry, *Rambling Recollections* (2 volumes, London, 1908), Volume II, pp. 1-6.



expenditures. On December 7, 1861, the two representatives of the British Board of Trade submitted a report to their government, a report which was distinctly favorable to the possibility of ultimate improvement. There was, according to this report, nothing fundamentally bad in Turkish financial management. Revenues were capable of expansion; increase them, and many former evils would be removed. The misfortunes of preceding years had been many, to be sure, but they had been caused by ignorance of sound principles, and not by bad faith. Outside advice could remedy this defect.<sup>20</sup> There was no proposal to institute foreign control. Moreover, faith in the future of Ottoman finance was stimulated by rumors that the Government was on the eve of granting a wide extension of privileges to the Ottoman Bank. Finally, the Finance Ministry, with the aid of foreign assistance, had completed its survey of the situation, and had drawn up a budget. Fuad Pasha, the Grand Vizier, embodied this statement in a famous report to the Sultan early in 1862.

Thus the stage was set for a favorable reception to the proposal of the Imperial Government for another loan. Paper money still circulated in the capital of the Empire; the amount had even been increased by heavy issues which in December, 1861, brought the *caimé* to a low point of a quarter of its nominal value. But the Government was willing, if a loan could be devoted to withdrawing the paper money, for a foreign expert to direct this process. The Hobart-Foster report received favorable comment in the House of Commons; Lord Palmerston delivered a eulogy on the virtues of Abdul Aziz. Under the unofficial sanction of the British Government, the loan, which had been underwritten by the Ottoman Bank and Devaux and Company, of London, achieved a phenomenal success in the money markets of Europe. An issue rate of sixty-eight, however, brought to the Government's coffers little more than half of the nominal amount of ten millions sterling. Nevertheless, under Lord Hobart's direction, the paper money was withdrawn from circulation.<sup>21</sup>

<sup>20</sup> *Parliamentary Papers, Turkey (1862) Volume 64, pp. 475 et seq.*

<sup>21</sup> See the statement made in the House of Commons by Mr. Layard, Undersecretary for Foreign Affairs, *infra*, Chapter IV, pp. 49-50; Lord Palmerston's panegyric, *ibid.*, p. 50.

## GROWING FREQUENCY OF THE LOANS

The expedient which had been adopted to meet the demands of war, and which also had been employed as a means of retiring the paper money, was now viewed as a method of meeting budget deficits.

The Turk, finding he could borrow money easily, spent it more lavishly. But with the financial system derived from Europe, they had no knowledge of managing, as Europeans manage, their finances either in checking expenditures or collecting taxes. Thus borrow! borrow! borrow! was their only resource as immediate payments became necessary; and this on those terms by which the money wanted could most quickly be procured.<sup>22</sup>

In 1863, reorganization of the Ottoman Bank, with greater prerogatives than heretofore, had taken place as rumored; in exchange for the new concession, the Bank granted another loan. The floating debt again showed signs of increasing; with the proceeds of the 1863 loan of a nominal total of eight millions, issued by the Ottoman Bank, the Government's debts to local bankers were again transferred to foreign creditors. Two years later no ready cash was available with which to meet the January, 1866, coupons; no alternative appeared but another loan. The annual charges on the foreign debt, already over two and a quarter million sterling, were by this loan increased another half-million. In May, 1866, when Fuad Pasha was searching for means to meet the matured coupons on early issues, the British and French Ambassadors at Constantinople expressed their uneasiness concerning the lot of the holders of bonds of these issues, fears which were calmed by Fuad, who gave assurances that the Government would respect its external obligations. In the same year the internal debt was funded by using the proceeds of a series of bonds secured on the general revenues of the Empire.

The quickened pace of the process was not regarded, however, as cause for undue alarm. Revenues were rising. According to the 1863 budget receipts were estimated at something over fifteen million pounds sterling; five years later the Government estimated its income at nearly twenty millions. Although Sultan Abdul

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<sup>22</sup> Drummond Wolff, *op. cit.*, Volume II, p. 5.

Aziz manifested an uncontrollable desire to increase his navy, the European ambassadors in no way impeded him.<sup>23</sup> No syndicates were appointed for the collection of interest for the 1858 and 1862 loans, as the Ottoman Bank maintained that payments on these loans were being met regularly.<sup>24</sup>

Nevertheless, unlooked-for demands for money continued. Foreign monarchs paid return visits to Abdul Aziz, who had made a circular European tour in 1867. Diplomatic and regal amenities had to be lived up to, and the Sultan entertained his royal guests on an oriental scale of lavishness. Insurrection in Crete demanded increased outlay for war materials. In 1869, proceeds from a six percent loan of a nominal total of twenty-two million sterling, issued at sixty-one by the *Comptoir d'Escompte* of Paris, allowed the Government to discharge its immediate obligations on the foreign debt, and to meet the increased day-to-day expenses created by the Cretan rebellion.

Lottery bonds issued in 1870 by Baron Hirsch as a means of financing the construction of the network of railways for which the concession was obtained in April, 1869, were of a total nominal value of nearly thirty-two million sterling, but the Government received less than a third of this amount.<sup>25</sup> In June, 1871, Dent, Palmer, and Company floated another six percent issue of a nominal total of five million seven hundred thousand. This allowed the Government to meet charges on its external obligations for another short period.

A series of nine percent Treasury bonds was issued by Raphael, of London, in April, 1872, for a nominal total of eleven million. Barings, Rothschild, and the Ottoman Bank, combined in September of the following year to bring on the market an issue of eight million, at fifty-eight and a half. The culmination occurred in 1874 when the Ottoman Bank floated the issue of largest nominal total, forty million sterling, at the figure of forty-three and a half!

<sup>23</sup> Newton, *Lord Lyons, A Record of British Diplomacy* (2 volumes, London, 1913), Volume I, pp. 151-2.

<sup>24</sup> Du Velay, *op. cit.*, pp. 151 *et seq.*; Newton, *op. cit.*, Volume I, p. 152; Constantinople correspondence to the *London Times*, June 17, 1872.

<sup>25</sup> For the details of the management of this issue of bonds by Baron Hirsch, and the railroad constructed, to say nothing of the profits realized on the transaction, consult Du Velay, *op. cit.*, pp. 250 *et seq.* Cf. also the article by Bent, T., "Baron Hirsch's Railway," *Fortnightly Review* (London) Volume XL, New Series (August 1, 1888), pp. 229 *et seq.*

This proved to be the end. Revenues had increased, but not in the same proportion as the charges on the foreign debt. Estimates by the Government of receipts from state revenues touched twenty-two million sterling in 1874. But after the Ottoman Bank flotation of that year interest and sinking fund charges amounted to twelve million sterling! The limit had finally been reached. The foreign debt theoretically absorbed fifty-five percent of the total resources of the Imperial Government.

This procedure was like a snowball: the more money Europe lent, the more ways Turkey spent. The Imperial Government sought the loans. It was simpler to pledge next year's tithes as guarantee for a new loan than to effect economies in the local administration and to retain control of the tithes in order to meet current expenses. Or it was easier to fund a constantly reappearing floating debt by a foreign loan than to abolish wasteful methods in the central administration. Continuous and increasing palace debts were met by internal loans. When the limit of saturation appeared, internal obligations were converted into a foreign loan. Transfer the floating debt from Galata bankers to French *rentiers*! Substitute Englishmen from the Midlands for the bearers of internal bonds! Money comes easily; life is good; borrow, borrow, borrow!

On the other hand, western bankers urged the Sublime Porte to borrow. Available diplomatic documents do not reveal the complete rôle played by embassies; but an obscure newspaper item narrates that one loan, at least, is supposed to have been forced upon the Porte by the French Embassy.<sup>26</sup> Private financial archives are closed to the public gaze; nevertheless, the representative of one London firm is reported to have been sufficiently powerful to cause the downfall of an obdurate grand vizier, who refused to accept a proffered loan.<sup>27</sup> Moreover, European advice was well-intentioned, but wide of the mark. Never mind reducing expenses; increase the revenues. Natural resources can be exploited when agriculture fails. Competition for loans was keen; the Government needed money; our company would lose out, un-

<sup>26</sup> *Levant Herald* (Constantinople) quoted by the *London Times*, October 30, 1868.

<sup>27</sup> *Supra*, note 6. A hypothetical case of the negotiations prior to the opening of the public subscription is described in Drummond Wolff, *op. cit.*, Volume II, pp. 63-6.

less influence were exerted. Closet yourself with the Grand Vizier! A pliable finance minister! It's not our money that is used! Quick profits! Opportunity of a lifetime! Lend, lend!

Initial profit realized by underwriting firms and interest drawn by investors are two outstanding points to be noted. The average issue rate was approximately fifty-eight percent; this must be reduced further by six or seven percent to represent underwriters' commissions. In many of the contracts an option clause was introduced, according to which the issuing house, having bought outright a part of the issue, reserved the right to float the remainder at its convenience. The proceeds from the portion at option were realized by the bank at any rate which the market would bear; the Government, however, received proceeds therefrom on the basis of the quotation in the optional clause. It involved a risk for the underwriter, but the hardship worked on the Government was invariably greater. "It is worthy of note that every time the option was altered, there was also a change in the original conditions of the contract, a change always in favor of the issuing persons and to the detriment of the interests of the Treasury."<sup>28</sup>

Bankers in Galata (the section of Constantinople containing the financial district) who had engaged in lending to the Government retired to Paris and constructed mansions in the Parc Monceau.<sup>29</sup> A host of credit establishments sprang up in Constantinople during the decade 1865-75; their avowed purpose was to lend money to the Government, because, when the opportunity for profits was removed by the default in 1875, the majority immediately went out of business. One of these firms, the *Crédit Général Ottoman*, placed twenty thousand of its shares on the Constantinople market on August 18, 1869. Orders for 957,000 were received.<sup>30</sup> Successful purchasers realized handsomely on their investment. In its report of April 7, 1873, the board of directors of this company announced the distribution of a dividend of 2.94 Turkish pounds, that is, 26.74 percent on the paid-up per share capital of eleven Turkish pounds.<sup>31</sup> The normal annual dividend paid by the

<sup>28</sup> Du Velay, *op. cit.*, pp. 340-1.

<sup>29</sup> Morawitz, *op. cit.*, p. 25.

<sup>30</sup> *London Times*, August 18, 1869.

<sup>31</sup> Du Velay, *op. cit.*, p. 305, who doubted at first whether this profit might be attributed entirely to the business of loaning to the Government, but concludes that "this marvellous dividend . . . is nothing more than

Ottoman Bank to its British and French shareholders from 1863 to 1873 was between twelve and thirteen percent.<sup>32</sup> The low issue price of the loans indicated not only profit for the banks; but also it signified the realization by the ultimate purchaser of ten percent, for instance, on a bond paying nominally six percent. Varied were the persons and institutions who purchased Ottoman bonds. The shock of the crash in 1875 was even felt within the Vatican, which had invested in Turkish securities!<sup>33</sup>

#### PROFIT AND THE POLITICAL STATUS QUO

In these twentieth century days, when capital is recognized as a powerful instrument for the extension of economic and political influence over "backward" areas, the critical student must ask whether this huge investment of the savings of Europe was effected for political ends.

The answer must be sought in the obvious political aims of England and France in the Ottoman Empire, and in the dominant economic doctrine of the time. The loans made during the Crimean War were frankly political in purpose. The political alliance of February 25, 1854, was not sufficiently potent to bolster up the weak structure of the Ottoman Government. The aims of the alliance had to be backed by money, the sinews of war. Thus Turkey received from her allies approximately eight million pounds sterling. Moreover, the treaty of alliance was offensive and defensive in character, guaranteeing the independence of the Empire and the integrity of its territory. Thus the political aims of France and England were indicated.

Whatever may have been the skepticism with which some financial circles in France and England regarded Turkey, the loans during the Crimean War were deemed necessary. In its financial columns, the *Journal des Débats* of August 25, 1854, observed that "The Turkish loan has attracted the best capital in Paris." A leading London financial magazine, during the flotation of the 1855 loan, spoke of its object in these terms: "That the means adopted to recruit the resources of Turkey for maintaining her

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the profit realized on advances or loans contracted by the Ottoman Government, to the exclusion of all industrial transactions."

<sup>32</sup> This fact is exposed to public view on a marble slab in the main corridor of the Ottoman Bank in Constantinople.

<sup>33</sup> Morawitz, *op. cit.*, p. 28.

position against the aggression of Russia will prove successful, is the devout desire of every one favorable to the cause of civilization." <sup>34</sup>

Five years later, after the successful conclusion of the Crimean War, another English periodical favored the principle of guarantee, which was the official policy of the British Government: "The preservation of the Ottoman Empire from ruin and dismemberment is, at least for the present, an object of the highest importance to the interests of England, as well as to the general tranquility and prosperity of Europe." <sup>35</sup> In 1861, the *London Times*, although it wondered if a change in British policy were imminent, admitted that "a few years ago . . . everybody recognized the importance of keeping the Bosphorus in the hands of a power too weak to be aggressive, and of the advantage of having a semi-civilized but progressive state as a sort of outpost of Europe against Asia." <sup>36</sup>

On May 29, 1863, Gladstone, then Chancellor of the Exchequer, said in the House of Commons:

Let us firmly adhere to the ancient policy of this country, that whether the existence of the Ottoman Empire in Europe be in itself desirable or not, it is a matter of profound European concern that the destruction of that Empire be not made the means of introducing more serious evils and dangers more menacing than any which may attend its continuance. <sup>37</sup>

By 1867, however, the *Times* recognized that Britain's attitude was expedient, as is shown by the following extract from a leading article: "Of all her [Turkey's] neighbors, only England and Austria are really favorable, and their good will arises more from the notion that the downfall of the Turkish Empire would exalt their own rivals than from any real friendship for the threatened power." In the same article France was called a "lukewarm" friend and Russia and Greece "unrelenting enemies." <sup>38</sup>

In 1864 a policy of expediency was likewise advised for France.

<sup>34</sup> *Banker's Monthly*, Volume XV (September, 1855), p. 559.

<sup>35</sup> *Fraser's Magazine*, Volume LXII (October, 1860), pp. 483 *et seq.*

<sup>36</sup> June 19, 1861.

<sup>37</sup> *Parliamentary Debates, House of Commons*, third series, Volume 171, (1863), p. 147.

<sup>38</sup> September 13, 1867.

The best policy is, in short, that which the signs of the times indicate, one that takes account of the new needs and legitimate hopes of peoples. The rôle of the Powers, and that of France in particular, seems to us clearly defined. M. Guizot thus clarified it so judiciously in a passage from his *Memoirs*: "Keep the Ottoman Empire together in order to maintain Europe in equilibrium, and, when some dismemberment takes place or some province detaches itself from that decadent Empire by the force of circumstance or the natural course of events, be in favor of changing it into a new and independent state which will take its place in the family of nations and one day will form part of a new European equilibrium. This is the policy which suits France, and to which she has been naturally led, and the one which she will do well, in my opinion, to follow." (Guizot, *Memoirs*, T. V.)<sup>39</sup>

This author adds that such a policy was also advocated by another French writer, M. St. Marc Girardin, in an article written shortly before.<sup>40</sup>

Maintenance of the political and economic status quo in Turkey was compatible, moreover, with self interest in Britain and France. Free trade connotes the unrestricted exchange of goods and services between individuals and communities. Upon this doctrine British commercial policy had been based since 1846, and French policy since 1860. Restrictions imposed on British industry earlier in the century had been removed. An economic policy based on the doctrine of official non-interference with trade and industry refused to take cognizance of the uses to which capital was placed. Capital was composed of earnings and savings; these were fruits of the factory system. As a part of this system, capital enjoyed the same unlimited freedom of action that belonged to trade and industry. Earnings might be ploughed back into home industry, or exported to other countries: to the government either of these policies was acceptable.

When capital could be profitably disposed outside of national boundaries, it should be allowed to migrate. As the country in which industrialization had progressed further than any other, England was the first to experience a supposedly "saturated" capital market. More lucrative fields than those available in the "saturated" area, therefore, should be sought abroad.

<sup>39</sup> Ubcini, M., *Revue des Deux Mondes*, May 15, 1864.

<sup>40</sup> *Ibid.*, March 15, 1862.



For the most part official attention was unconcerned about areas in which investments were made. Governmental defence of foreign investments could be invoked only in case of a flagrant breach of international law, amounting to a denial of justice. At this moment assistance to disappointed bondholders was not conceived as being consonant with broader national interest.<sup>41</sup> Not yet had the voice of economic nationalism sounded its call to make the nation economically self sufficient by restricting imports and by employing national capital to develop native and infant industries. Nor indeed had zealous defence of economic interests abroad been evolved as a primary factor in the determination of foreign policy. Thus British and French gold went into Turkish bonds with little political significance save that of seconding in a weak manner official desire to keep the status quo intact.

Here is a reason explaining why there existed so little desire to institute foreign control over Turkish finances. Irregularity in the administration of the service on foreign loans was considered the concern of the issuing houses and of the bondholders. Diplomatic representatives who were personally interested might, of course, display interest in rectifying gross errors. Official opinion, however, envisaged foreign investments as good or bad; in the former case the individual bondholder reaped the benefit to the exclusion of the broader interests of the government and the country. In the latter case, the bondholder should bear the loss; he should not expect the government to assume expense or to risk involving the country by attempts to pick chestnuts from the fire.

Of course, at this time bondholders were hopelessly disorganized. Even if organization had existed, experience later showed that little could be expected from the underwriting houses in effecting the execution of provisions for syndicates to collect earmarked revenues. "The contractors of the [1858 and 1862] loans,

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<sup>41</sup> Speaking of British policy, Jenks, *op. cit.*, p. 123, says: ". . . It need not be supposed for a moment that disregard of bondholders arose from any fine sensitiveness about using the resources of the nation to forward the interest of a few subjects. It simply had not been conceived as a national interest to help bondholders." The gradual transition in the attitude of the British Foreign Office during the nineteenth century is thus described by this author: "What had been an embarrassment to Castlereagh, a subject to be virtually shunned for Canning, was appearing to Palmerston as an opportunity and as a right to be employed with discretion, and was forshadowed as a possible national duty." *Ibid.*, p. 125.

to whom belongs the right of nominating the syndicates, have not asked the execution of this clause."<sup>42</sup> The Ottoman Bank, indeed, requested the Turkish Government to refrain from recognizing agents of the bondholders.

Although in 1870 the Grand Vizier, Aali Pasha, upon the representations of the British Foreign Office, had appointed members of the syndicate for the 1862 loan, this commission was never set to work. At this time such a course was about the extent to which a foreign government would venture. Even in those days establishment of foreign control over the finances of a debtor country presupposed on the part of the creditor definite diplomatic aims and a favorable opportunity to effect them. But only one first-rate power, Russia, was avowedly hostile to the Empire, and Russia elected more drastic measures than the institution of financial control. Moreover, no Ottoman bonds were held in Russia. Diplomatic influence exercised at Constantinople by representatives of the other European powers had to be both subtle and graceful in its course, and exercised with due consideration for possible effects on relations in other areas. Prussia's opposition to the French Ambassador's scheme<sup>43</sup> in 1860 seems to have been sufficient to sterilize it. When a single government is sub-

<sup>42</sup> "In 1870, Aali Pasha, the Grand Vizier, upon the representations of the British Foreign Office, appointed the members of the syndicate of the 1862 loan, whose function it was to receive, according to the contract, the revenues especially hypothecated. The syndicate, although appointed, was, however, never set to work, and on the introduction of the six per cent. loan of 1871 by Dent, Palmer, and Company, opposition was threatened on the ground that Turkey had not fulfilled some of the special conditions of the 1862 loan. Similar views were taken by a holder of the bonds of the 1858 loan, who pressed them upon a committee of the Stock Exchange. It was then understood that the Turkish Government gave a distinct promise that the syndicates of the 1858 and 1862 loans would be put in force, and on that promise the quotation of the 1871 loan was granted. Still, from that time to the present no action has been taken by the Turkish Government with respect to the syndicates, and in the absence of such action it is insisted that no new Turkish loan can be introduced upon the London market." Private correspondence to the *London Times*, June 12, 1872. "The contractors of these loans (1858 and 1862), to whom belongs the right of nominating the syndicates, have not asked the execution of this clause. Last year the Imperial Ottoman Bank suggested to the Turkish Government to not recognize agents of the bondholders, as it (the Ottoman Bank) was paying the service on these loans as regularly today as formerly." Constantinople correspondence to the *London Times*, June 17, 1872. Cf. also *Parliamentary Papers*, No. C. 1077 (1874) pp. 1-27, for official correspondence concerning the 1858 and 1862 loans.

<sup>43</sup> *Supra*, Chapter III, p. 32.

jected to diplomatic influences springing from a number of sources, these impulses can usually be made to counteract each other, leaving practically a free hand to the supposedly "weak" government. A comparable situation existed at Constantinople during this period. And what the Turks consented to give with their right hand, was frequently taken away with the left.

Nevertheless, even at this time political rivalry on the basis of economic interests was envisaged as a possible outcome of the situation. A French correspondent in Constantinople submitted to the Government at Paris an open report in which he called attention to the recrimination which Lord Stratford had undergone as a result of the numerous public utility concessions which had just been awarded to British promoters. "To speak frankly, France has taken no part in the great enterprises which are destined to change completely the face of Turkey, and from which she [sic] may obtain immense advantages. But who is in fault? Is it not to the apathy of her children that she owes it rather than to the intrigues of Lord Stratford?"

An English reply to this appeared on February 20, 1857:

The whole matter is simple enough. The people of this country want no accession of territory at the expense of Turkey, nor do they wish to influence the counsels of the Porte, except that they may insure its stability and independence and promote the prosperity of the people. But our capitalists and men of enterprise have gone to Turkey because they see in it a country of great capability, where money and industry judiciously [sic] invested may bring large returns. . . . The Turks have a fine territory and no money, energy, or skill; we have all three, and they pour into Turkey as naturally as water finds its level. However, we are far from saying that this extension of individual enterprise will not have political results. It is one of the benefits of freedom, and of the energy and self-dependence which it gives to the individual, that any private man may influence the destinies of this country. Our capitalists, our schemers, our travellers are not directed according to any plan of British policy, but, on the contrary, the Government merely follows the routes they indicate and supports the enterprises they have initiated. . . . The British Government has no plan for the establishment of its influence; it merely leaves things alone; and yet, though the [Turkish] Empire will always, we trust, maintain its political independence, there can be no doubt that the relations with England must in the course of

a few years become more intimate and the effect of English enterprise most remarkable.

From the development of trade, the construction of telegraphs and railways, and the necessity of maintaining communication with the Indian and Australian dominions, "we cannot, therefore, but expect . . . such an extension of our influence as will enable us to effectually uphold the integrity of the Empire."<sup>44</sup> The elements of imperialism were already at hand, and the events of the late nineteenth and early twentieth centuries were already anticipated in the 1850's.

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<sup>44</sup> *London Times*, February 20, 1857.