
The National Bank Concession (1856–63)

I. Ottoman Finances before the Crimean War and the First Bank Projects

In a despatch to Lord Palmerston written in the April of 1851, Stratford Canning, the formidable British ambassador at Constantinople, briefly passed in review the quarter century that had elapsed since the destruction of the Janissaries by Mahmut II had ended the ability of the conservative elements in Ottoman society to resist the progress of change by force. 'It is most consoling to acknowledge', he wrote in his characteristically sonorous style, 'that ... a signal change, accompanied with much external advancement towards the civilization of Christian Europe, has been effected in the administration of the Ottoman Empire, and particularly ... in the manners and sentiments of its inhabitants. But', he went on, 'little is done to put the independence of Turkey on a *solid* basis.' Creditable though the measures of reform were to the individuals who had promoted them, and gratifying though they might be to humanity, there was one fatal flaw in the process of self-regeneration in which the Ottoman state was engaged. 'Disorder in their finances, corruption in every branch of their administration ... oppression and deceit in every branch of their revenue, and an obstinate reluctance in their own breasts to avail themselves *wholesomely* of foreign capital, science and skill' were, as Canning saw it, both the symptoms and the causes of this weakness. The best, indeed the only way to alleviate them, he believed, was through the introduction of foreign capital. A loan raised in the West would stabilize the government's finances and give it a new start by consolidating its numerous debts and converting them to a lower rate of interest. It would also provide the capital for constructing the means of transport and the other public works needed to unlock the great 'resources of Turkey', in which Canning, along with so many other European observers, had so much faith; and increasing the prosperity of the country would also increase the tax

revenue payable to the government. And the most appropriate instrument for attracting foreign capital, while at the same time providing invaluable assistance in the routine administration of government finance, would undoubtedly be a 'state' or 'national' bank.¹ There were in Constantinople many private bankers, individuals or family firms, some of them very wealthy,² but there was no substantial banking institution managed by men of probity, whose search for profits was tempered by some sense of responsibility for the welfare of the Ottoman polity, and certainly nothing remotely comparable to the Banks of England or France.

By the time of Canning's despatch, however, the Porte was beginning to contemplate making good this deficiency, and a fortnight later the ambassador was able to confirm that 'serious intentions of establishing a National Bank are now entertained by this government'.³ Canning had, he claimed, been attempting to interest the Ottoman ministers in the idea of such a bank for many years. And certainly back in 1838, while Sultan Mahmut was still alive, another British envoy, Lord Ponsonby, had drawn up a specific proposal in concert with the London firm of Reed Irving and Co., and had submitted it to the then Foreign Minister, Reşit Pasha – but without results for the latter, according to Ponsonby, 'did not understand the business, and forgot it, and lost the paper'. Ponsonby revived the suggestion in 1840–41, this time receiving a much more positive response, although again there was no upshot.⁴ Thus, by the spring of 1851 the idea of a national bank had already been current among the ministers at the Porte for at least a decade.

There is no evidence, however, that during that time they had given it much thought. Their interest in and their grasp of financial matters, public or private, was at this stage not yet very great, and generally speaking was aroused only when funds ceased to be available. 'Only two Turks', commented Colonel Rose in October 1852, 'Fuad Effendi and Safetti Pasha,⁵ know even the commonest European details as to banks, funds, bills etc. and no Pasha keeps an account book, or knows his own accounts.' Likewise Stratford Canning, telling of a conversation about finance with Reşit Pasha the year before, reported that 'the Grand Vezir ... disclaims all knowledge of the subject himself'. As for Nafiz Pasha, the Finance Minister in 1851, although able and honest, he was 'altogether destitute of European knowledge'.⁶ And this almost universal ignorance about finance among Ottoman ministers is amply borne out by a whole series of episodes around this time, for instance their collective misapprehension as to the true rate of interest the government was to pay for moneys it had agreed to borrow through the abortive bank of 1853.⁷

However, one financial matter in particular had forced itself on their attention and obliged them to seek a remedy, and that was the disordered

state of the Ottoman currency, of which important elements were heavily debased, and the consequences of this. The most important of these consequences were the effects upon the exchange rate and the dislocations they caused to all aspects of commercial life, the importance of which was obvious even to the most obscurantist Pasha. To stabilize the rate of exchange against the currencies of the empire's main trading partners, and to try to maintain the value of the paper money known as *kaime*,⁸ they had set on foot the so-called Banque de Constantinople. This concern was managed by two of the most substantial of the local bankers, Jacques Alléon, a French citizen of Armenian origin, and Théodore Baltazzi, a Greek, and they undertook to furnish foreign exchange at an unvarying Ps 110 to LS 1, with the costs of the operation to be met by the state Treasury. But operating as it did without an independently subscribed capital of its own, and with its business confined to so narrow a field, the Banque de Constantinople was hardly a bank at all in a strict sense, and it is probably appropriate to regard it rather as an offshoot of the Ottoman Treasury put out to private management, a mere '*bureau administratif, chargé de regulariser le cours du change*'. Given the downward pressure on the exchange value of the piastre arising both from the deplorable state of the Ottoman coinage and the country's adverse balance of payments, and given the opportunities for risk-free currency speculation at the government's expense which the bank provided, and which a more experienced set of ministers would have anticipated, the losses arising from its operations turned out to be large. In the first two years (March 1848 to March 1850) it furnished foreign exchange to the value of over Ps 810 million, upon which the loss was over Ps 26 million, or around LS 236,000. Moreover, with the passage of time the scale of the losses increased, as the scale of purely speculative exchange dealing grew, until they reached the equivalent of LS 300,000 in 1851-52 alone.⁹ Certainly no normal bank, private or corporate, could have sustained such losses and even for the Ottoman state, whose annual revenue at this time was equivalent to only some LS 6 or 7 million,¹⁰ they were dangerously heavy. Indeed, they were heavy enough to play a part in the financial crisis in which the government found itself in 1851, and thus in the revival of Rı̄şit Pasha's interest in the concept of a national bank which was one consequence of that crisis.¹¹

Some degree of financial embarrassment was by this time a very old story for the Sultan's ministers, but already in these first decades of the reform movement (the Tanzimat as it is known in Ottoman history), such difficulties were becoming increasingly insistent. The heavy burden imposed by the indemnity that had to be paid to Russia as part of the Treaty of Edirne (1829), and the costs of the struggle with Muhammad Ali in the 1830s, did much to undermine such financial strength as the government still retained

at the very time when the systematic attempt to transform the institutions of the empire began to get seriously under way.¹² More of a problem in the long term, however, was the fact that reform was extremely expensive. Maintenance of a modernized army above all; but also the reform of the central bureaucracy, and of the provincial administration; the establishment of a new judicial system and a new educational system; the undertaking of a programme of public works, especially in the form of road-making, bridge-building and irrigation, all required large amounts of money. The services of numerous foreign experts, civil and military, had to be hired, up-to-date weapons purchased, the size of the bureaucracy vastly expanded, and so on. Slowly and incompletely though many aspects of reform were in fact implemented, the government's expenditures nevertheless tended to grow more rapidly than its sources of income. Fiscal reform was part of the general reform programme, but its effectiveness in terms of producing a larger revenue was limited for a variety of reasons.¹³

First, the yield of what was potentially one of the most important sources of revenue, the customs, was limited by international agreements. And these, as renegotiated in a series of treaties beginning with the Anglo-Ottoman Commercial Convention of 1838, fixed the rates of duty at 5 per cent on imports and 12 per cent on exports, rates of which the first in particular was undesirably low whether from the point of view of maximizing revenue or providing protection for indigenous manufacturing. The empire's foreign trade was growing fast at this time but the tariff structure could be altered only if the agreement of the foreign powers could be secured, and, as the future was to show, their agreement would not always be readily forthcoming. Second, any enlargement of the country's rather limited internal tax base by the commercialization of peasant agriculture, the extension of cultivation on to unused land, and the development of other forms of primary production such as mining, was inevitably slow. Indeed, it could make little progress until much capital had been invested in the public works programmes referred to above, and very little was in fact available for them. On the other hand, by no means all of what the tax-paying peasant disgorged ever reached the coffers of the state. It was impossible to find enough honest and competent officials to act as tax collectors, and so the most important single source of revenue, the tithe, still had to be levied in the old way, through tax farmers, who agreed with the state for a lump sum and then recouped themselves from those liable for payment. In so doing they inevitably made for themselves very large profits at the expense of both government and cultivators.¹⁴ Besides, speculation and other forms of corruption at all levels in the bureaucracy was a further problem, causing a constant haemorrhage of the resources of the state. Reşit Pasha, the Grand Vezir, was a convinced reformer, but he did not scruple to

enrich himself in this way, and his example was followed and often exceeded by almost everyone in a position to do so. Sometimes this haemorrhage was on such a scale as to be life-threatening. In October 1852, for instance, the chief farmer of the customs, Meguerditch Djezairlian, was arrested as part of a political campaign aimed at Reşit who was his patron and found to be in default to the government to the tune of Ps 80 million, the equivalent of at least 10 per cent of an entire year's revenue.¹⁵ The absence of any kind of formal budgetary procedures led to a confusion which both facilitated the malpractices of officials, and left ministers with little idea of how much the government could expect to receive in a given year, and almost none of how much was actually being spent. This was a situation which was bound to lead to trouble, the more so since there was not even a minister with overall responsibility for finance. The so-called Finance Minister at this time was in reality only a glorified government paymaster. He was not concerned with shaping fiscal policy, with fiscal administration, or with maintaining control of expenditure.¹⁶

Referring to the 1840s, Ubicini commented that, save when unfavourable harvests lowered the yield of the tithe, receipts and expenditures more or less balanced each other.¹⁷ In reality, however, the equilibrium seems to have been more apparent than real, since earlier revenue shortfalls had often been met in large part by debasing the coinage. By the 1840s, however, deficits were being covered by borrowing in one form or another and, *pace* Ubicini, the scale of these deficits *was* sometimes substantial. Thus in 1844, a year neither of harvest failure nor of major military operations, Alléon estimated it at Ps 214.5 million on a revenue of some Ps 600 million/LS 6.6 million, while the total of the internal debt was then Ps 349.5 million, a figure which was increased progressively from that time onwards.¹⁸

Much of this internal debt was owed to a group of extremely wealthy *sarrafs*, or dealers in money, who were established in the Galata district of Constantinople. There were many hundreds of *sarrafs* in the capital, most of them combining petty exchange deals with pawnbroking and other forms of small-scale money-lending, but a few dozen of whom had become extremely rich, mainly through their transactions with the central or provincial authorities. Known collectively as the Galata bankers, these people were at that stage mostly of Armenian origin. However, during the 1850s the dominant position in Ottoman government finance that this particular group had enjoyed over the previous decades was strongly challenged by a number of wealthy Greeks, the origins of whose fortunes usually lay in commerce rather than in money-changing and tax farming.¹⁹ In addition, there were always a few Jewish concerns involved, and by the middle of the decade a number of westerners had also become established in the Ottoman capital, notably the firms of Ede,

Hanson, and Black, all of whom were British. For all the cramped and indeed squalid premises which many of them occupied, the leading Galata bankers commanded very considerable resources, and had direct links with foreign banking houses in London, Paris and elsewhere. Alléon, for instance, was (or at least in 1840 had been) the local correspondent of the important Viennese firm of Sina. And some of them, such as Baltazzi, Tubini, Zarifi and Camondo, themselves had either already established branches in one or other of the western capitals or were soon to do so. The advances they made to the Ottoman government were invariably short-term, for one or two years at the most, usually secured by anticipations on particular sources of revenue (*esham*), and at high rates of interest, commonly 12 per cent, sometimes 18 per cent or even more, which reflected both a relative scarcity of capital and the element of risk. The government had never yet formally defaulted on its debts, but there could be little certainty about exact dates of repayment and until well within living memory individual creditors had been subject to the arbitrary confiscation of their assets and even execution.²⁰

Collectively these local bankers continued to play a major role in Ottoman government finance into the 1860s (by which time the Greeks had largely eclipsed the Armenians) and a not insubstantial one until the state bankruptcy of 1875 and even beyond, but until the time of the Crimean War they had a near monopoly of it. They were thus essential to the functioning of the empire, but western and especially British diplomats, and a little later western financiers in competition for the provision of financial services to the Porte, were exceedingly critical of them and their methods. The inner group of eight or ten individuals or family firms who handled most of the major short-term advances and tax farms were, for instance, contemptuously dismissed as 'the Galata clique'. This contempt, it has to be said, was not unmixed with racism, and the phrase 'Greeks and Armenians' was often used in such a way as to imply that bankers (and others) of those nationalities had inherent moral defects which it was pointless to expect could ever be cured. It also reflected the disapproval of Europeans, who often combined the search for profitable opportunities for themselves with a quite genuine desire to bring order and enlightenment to Ottoman finances, for those 'natives' who were content simply to grow rich from alleviating the consequences of official incompetence and ignorance in the short term, without feeling any obligation to help find a long-term cure. European contempt also derived from the fact that inevitably there was a different tradition of banking and commercial morality on the shores of the Golden Horn from that which characterized Victorian London. This reflected the *mores* of a very different society. It also reflected the realities of a very different financial world, one which was at once highly circumscribed and intensely personalized. It was one in which

there were relatively few operators, all well known to each other, engaged in cut-throat competition for a limited amount of highly lucrative business, in pursuit of which a shifting series of alliances was constantly being forged and broken as momentary advantage dictated. It was also a world that was highly unstable and unpredictable, because of a chaotic currency; an economy and revenue system heavily dependent on the yield of the harvests; frequent natural disasters; even more frequent changes in the personnel of government and thus government policy; and the arbitrary way in which political power was exercised, particularly in the provinces. All this naturally rendered uncertain financial and commercial activities which would have been routine in the West. Furthermore, it was a world in which all these uncertainties were compounded by poor channels of communication, not least of reliable news and information. This left the door open, on the one hand for unsubstantiated rumour to serve as the basis of decision-making, and on the other for those who had secured reliable news, or were able to persuade others that they had, to manipulate circumstances to their own advantage, sometimes in a blatant manner. The operations of the Galata bankers were thus characterized by much intrigue, secrecy and manoeuvring, by the formation of short-lived consortia which would then exploit a situation of quasi-monopoly to the utmost of its possibilities while it lasted, and by outbursts of speculation of a rash and sometimes frenzied nature.

The *esham*, referred to above as the securities for short-term advances, had first been issued in the later eighteenth century. They were also used by the government to pay suppliers of goods and services for whom no ready money could be found, and at least by the 1850s as a means of funding short-term debts for repayment over longer terms. Alternatively, departments which had exhausted the funds allocated to them could make payments in *sergis*, effectively promises to pay at some future date. The recipients of either form of paper would probably be neither willing nor able to wait for a highly uncertain maturity date and so would turn them into cash by selling them at a discount to one of the *sarrafs* who thus became the creditor. Yet another form of government paper instrument in use at this time were *kaime*, first issued in 1840. These were Treasury notes, redeemable after eight years and bearing interest payable half yearly, 12.5 per cent down to 1844, then 6 per cent. They were issued in standard denominations, but initially only in very large ones. Unlike the *esham* and *sergis* they came to be used, at least within the business community, as a medium of exchange, and after 1852 came also to be issued in small denominations and without carrying interest, which completed their transition from a form of government security to paper currency.²¹ It was a currency, however, unbacked by specie and which came to be issued in very large amounts, besides being easy to counterfeit, so that in due course

it began to depreciate in value.²² One of the uses to which *kaime* were originally put was as a means of making part payment of official salaries for which sufficient cash was not available for them to be paid in full. Generally, however, if the government could not pay its civil functionaries or the armed forces, it simply allowed arrears to accumulate without giving its unfortunate employees any kind of security. The latter, both at this time and later, seem to have been remarkably good at surviving somehow even though they received no more than a small fraction of their usually meagre pay over long periods. This was an important factor in the almost Houdini-like ability of nineteenth-century Ottoman governments to escape from apparently terminal financial crisis; it was always possible to economize on official or military pay just one little bit more, in effect borrowing from its poorly paid bureaucrats and soldiers money on which it admitted no liability for interest and which it was under no compulsion to repay. Later on the amounts involved were overshadowed by other forms of debt, but until the early 1850s they made up a substantial fraction of what the government owed.

The transition from chronic, if relatively mild, financial difficulty to more serious crisis in 1851 seems to have been mainly the result of two successive years of poor harvests, reducing tax receipts, at the same time as there was an increase in military spending as a result of insurrection in Bosnia.²³ The large sums that the Banque de Constantinople was losing were, however, a contributory cause, and how to cover the Bank's accumulated liabilities in Europe was the most pressing problem that the crisis posed for the government. What had happened was that, rather than settling the balance due on the bills it drew on London and Paris in a regular fashion, the Bank had developed a practice of drawing new bills to settle old ones, so that a large debt built up, which sooner or later would have to be paid by the shipment of specie. However, since the Bank had lent out the moneys which it ought to have used to settle its bills to the Ottoman government, it had nothing in its coffers save the latter's paper, and its ability to send cash to Europe was thus entirely dependent on the government repaying its advances. By the autumn of 1851 it looked as though the scope for a continued circulation of bills of exchange was almost exhausted, that as a result bills amounting to LS 1.4 million would have to be paid in money over the following four months, and that if the government could not somehow make it possible for the Bank to do this, then, as Stratford Canning put it, '*it is all up*, and a terrible smash unavoidable'. The credit of both Bank and the government would be destroyed, many trading and discount houses left holding the dishonoured bills would be ruined, and Ottoman trade with Europe seriously damaged.²⁴

In April 1851 Canning reported that in the previous year expenditure had

exceeded income by LS 1 million/LT 1.1 million and that a shortfall of a further LT 770,000 could be expected in the current one. Altogether he believed that to clear its financial obligations completely the government needed about LS 7.5 million/LT 8.25 million, 'which is rather more than a year's average income'. In this he included an allowance for replacing the debased silver coinage, the pieces of 5 and 6 piastres known respectively as *beşliks* and *altılıks*, which was justified in that their condition was the main cause of the difficulties with foreign exchange whose alleviation was the *raison d'être* of the Banque de Constantinople.²⁵ However, its inclusion exaggerates the scale of the government's indebtedness in the ordinary sense of the word and, indeed, real though the crisis was, it did not prove to be as serious as Canning initially reported it. For a time, however, he was seriously concerned that a financial breakdown at Constantinople was imminent, and in his worst moments he feared that it would bring down Reşit Pasha's reforming ministry, and possibly even destroy the reform movement as a whole. To avert it he believed that the only way was for the government to do something to which it had never before resorted, that is to raise a long-term foreign loan to meet at least the most pressing of its internal commitments. The problem was that this course of action was vehemently opposed, both by the Sultan personally and by many conservative Ottomans because of the Qur'anic prohibition on the type of transaction it involved, and by others, not necessarily so conservative, who believed – in the long run rightly – that to borrow abroad would compromise the country's independence. A modest loan of perhaps LS 1.5 million in association with the establishment of a state bank in which both foreign and local capitalists were involved was, however, a possible compromise solution which might side-step the internal opposition. No doubt prompted by the British ambassador, Reşit was considering such a plan during the spring of 1851.²⁶

By the beginning of June a firm set of proposals had emanated from the commission to which the project had been referred. The bank was to have a capital of LT 1 million/LS 909,000 subscribed by shareholders, and was to be managed by a governor and directors chosen by the government from among their number, but who were to be kept accountable to investors through an obligation annually to print and distribute an account of their business proceedings. The bank was to act as receiver of the tributes paid to the Ottoman government by Egypt and other dependencies of the empire, and of the revenues which accrued in the provinces, and was to make advances to the state on the security of these. In order to take in the moneys it was to maintain agents in every province, and so as to help cultivators was to lend up to Ps 2 million in each with guarantees from both provincial and central government for the loans. It was also to take over from the Banque de Constantinople

the responsibility of maintaining the foreign exchange value of the Ottoman currency at Ps 110 to LS 1.²⁷ It was empowered to issue its own notes, which were to pass as legal tender, up to the amount of its capital; and was to have a monopoly of corporate banking in the Ottoman territories for the duration of its concession which was initially fixed at ten years. Stratford Canning had anticipated that the great difficulty would be 'to convince the Sultan's ministers of the necessity of founding their institution on principles calculated to engage the confidence of the money market', but he was reasonably well pleased with the project that had emerged, especially the element of 'public accountability' that it incorporated. Properly managed it might, he told Palmerston, 'perhaps be made the instrument of reaching eventually those important results which I have long pressed upon the attention of the Sultan and his confidential advisers'. However, the key question was 'the soundness of its title to public confidence'. He persuaded Reşit to exclude Théodore Baltazzi of the Banque de Constantinople from the intended board of directors because of his highly questionable commercial morality, and pressed him to include some leading members of the British business community instead. If the bank was to command confidence, he told the Grand Vezir, '*il est essentiel que les étrangers respectables y prennent une partie ostensible et efficace*'. An entirely Ottoman Ottoman Bank could not, he implied, be regarded as trustworthy. At any rate it would not be so regarded in the West.²⁸

Perhaps because of the fall of Reşit in early August 1851 the Porte temporarily lost interest in the idea of a national bank, but some eighteen months later another scheme was under discussion. In the meantime there had occurred the fiasco of the Frs 50 million/LT 2.2 million loan to be raised in Paris which the Sultan had, with many misgivings, sanctioned in 1852 as the only way to resolve his government's difficulties, and then promptly disavowed when it emerged that his agents had committed the empire to a twenty-three-year term when the longest he had been willing to accept, and that very reluctantly, had been ten. Abdülmecit's fundamental objection to the transaction was religious and moral – he feared for the safety of his soul if he approved it – but he was also extremely worried that any default in the repayments would give France the excuse to occupy Constantinople or to deprive him of one of his provinces, and the longer the term the more likely this was to happen. The liabilities of the Banque de Constantinople, and indeed its final liquidation, had been the main purpose to which the loan was to have been devoted, and forgoing it obliged the government to make enormous efforts to raise the money from other sources. By persuading the Viceroy of Egypt to pay a year's tribute in advance, by contributing largely from his private fortune, and by calling upon ministers and others for special contributions, the Sultan, acting it would seem personally, mobilized the

necessary funds. During the summer of 1852 the debt in Europe stood at LS 1.5 million, before the end of the year it had been reduced to LS 400,000, and by late January to only LS 200,000. Meanwhile, arrangements were in train to liquidate the bank, and plans were being drawn up for a new institution to replace it.²⁹

The scheme which emerged early in 1853 was for a new concern, like that proposed in 1851, to be called the Ottoman Bank. It was to be headed by a dozen of the leading financiers of Galata. Eight of those named were Armenian, including two members of the powerful and long established Düz or Duzian dynasty and one from the scarcely less prominent Tinghirian family. Of the remaining four, three – Dimitrius Psichari, Georges Zarifi and David Glavany – were Greek (albeit with various citizenships) and the fourth, Charles Hanson, was British. The twelve founders were to form the *conseil général* or board of directors, with Mihran Düz, who also controlled the imperial mint and who according to Ubicini was ‘one of the wealthiest capitalists in Turkey’, as *directeur général*, and Glavany, Hanson and Pschari named as *sous-directeurs*, almost certainly in an effort by the government to counter-balance the Armenian predominance in the concern as a whole. The capital of the bank was fixed at LS 1.8 million/LT 2 million, of which half was to be subscribed by the twelve founders, LT 700,000 raised by offering shares to the public, and LT 300,000 contributed by the government on terms which involved its repayment at the end of the fifteen-year term for which the concession was granted. The government was also to pay an annual subvention of LT 300,000. In return the bank was to advance LS 2 million/LT 2.2 million over and above its capital, which was to be raised on the London money market through two intermediaries, the firm of E. H. Stanley in Constantinople, and L. H. Hazelwood in London – money which, when obtained, was to be used to withdraw the debased *beşliks* and *altılıks* and to replace them with sound silver currency. It was also to maintain the exchange at Ps 110 as the Banque de Constantinople had done, and, as the latter had also done, the convertibility of the *kaime* into cash at par,³⁰ neither of which responsibilities were expected, in the new circumstances, to be a cause of significant losses. Beyond this it was empowered to open full-scale branches in the provinces, to discount commercial bills, and to accept deposits on current account without interest, but it was specifically prohibited from making advances either to individuals or to the state. Thus, although its intended functions were somewhat more extensive than those of the Banque de Constantinople, it was in essence a reformulation of it, as Article 7 of its statutes makes clear: ‘*le but principal de la société est de regulariser le cours et la circulation des monnaies de l’empire ... et de maintenir leur valeur relative au maximum ... de cent dix piastres pour une livre sterling*’. It did not have the

power of note issue, nor the function of receiving government revenues and making advances on their security, nor of making advances to cultivators, which the abortive scheme of 1851 had envisaged, and to that extent it was less of a state bank than the latter would have been. On the other hand, it was to have fully fledged branches in the provinces rather than mere 'agents', while its capital was twice as large and its local founders had the explicit backing of London financial interests³¹ in a way that the 1851 bank apparently would not have done. It may be said, therefore, to represent half a step forward towards the formula which ultimately was to produce an effective 'national' bank for the empire.³²

The promoters of the new bank faced opposition from at least two directions. On the one hand, jealous rivals in Galata, led by Théodore Baltazzi and Abraham Camondo, put forward a rival scheme, arguing that in reality the plan '*n'est autre chose qu'un emprunt déguisé*', and that their terms would enable the government to borrow the LS 2 million more cheaply. Perhaps they did, but distrust of the role Baltazzi had played in the discredited Banque de Constantinople was sufficient to ensure the rejection of any scheme he was associated with. On the other hand, there were the intrigues of the Russian ambassador, who hoped to use the issue to unseat the ministry of *Damat* Mehmet Âli Pasha. However, in large part for that very reason, the latter and his supporters hurried the proposal through the Council of Ministers and the Sultan gave his approval the very next day, 25 March 1853.³³ In the event, however, the new Ottoman Bank never functioned. Only two months later the Russian Tsar ordered his troops to cross the Pruth and occupy the Principalities, and the British and French governments decided to send naval forces to the Dardanelles. The slide towards war had begun, even though its formal declaration did not come until the autumn. In this situation Hazelwoods were unable to raise the LS 2 million in London and, since the loan for the restoration of the coinage was crucial to the scheme, the bank's founders were obliged to suspend the formation of their company. Then in the late summer of 1854, with peace as far off as ever and the government anxious to use the Egyptian tribute (out of which the bank's annual subvention was to have been paid) as security for a LS 3 million war loan to be raised in London and Paris, the founders had no choice but to renounce their concession altogether.³⁴

2. The First Phase of the Battle for the 'National' Concession

The preoccupations associated with the Crimean War meant that it was nearly three years before the Ottoman ministers returned to the question of a national bank, and in that time much had changed. First, the sheer cost of

the war – already LS 13 million by December 1855, the equivalent of one and a half year's additional spending – had left a legacy of increased debt and a currency in an even worse state than before. On the one hand, two foreign loans had been raised, in 1854 and 1855 respectively. The first of these, secured on the tribute paid to the Porte by the Viceroy of Egypt, was for LS 3 million/LT 3.3 million nominal in a 6 per cent stock and was issued at 80. The second, for LS 5 million/LT 5.5 million in a 4 per cent stock was also secured on the Egyptian tribute, supplemented by the customs of *zmir*, but in addition was guaranteed by the British and French governments because of their interest in sustaining the Ottoman war effort. As a result it was actually issued at a premium (102 $\frac{5}{8}$), the only Ottoman loan for which this was ever possible.³⁵ On the other hand the short-term debt to the local bankers was larger than ever, while government had also resorted to the printing of paper money in the form of the non-interest-bearing, low-denomination *kaime* first issued in 1852. As we have seen, these were not backed by specie and were easily forged, so that they had a strong tendency to depreciate, but by the end of the war they were the main form of currency used in Constantinople. Their withdrawal and replacement by a sound metallic currency was thus clearly an urgent priority, both in the interests of Ottoman commerce and economic life generally, and in order to provide a secure foundation for the restoration of the state's finances.³⁶

The second change was in the attitude of the Ottoman government to foreign borrowing. The exigencies of the war effort had finally overcome the resistance of the Sultan and the more conservative ministers to the idea of raising long-term loans in the money markets of western Europe, and the Porte was now ready to repeat the experiment for peace-time purposes. First and foremost it wanted foreign capital to deal with the *kaime* and the debased silver coinage. But also it was now anxious to push on with a programme of public works, particularly the building of railways, in order to develop the economic potential of its territories. Its conception of what functions a national bank might perform, although by no means fully worked out in the early part of 1856,³⁷ was thus much wider than it had been three years earlier when the maintenance of the exchange rate had been the main if not the only aim in mind.³⁸ Now, in the aftermath of war, the ministers chiefly concerned, who at this stage were Âli and Fuat Pashas, wanted a bank for two main reasons. They wanted an institution that would provide the government with a range of services, including the handling of tax revenues and the provision of short-term financial accommodation at a lower cost than that furnished by the Galata bankers, for these were needed with increasing urgency as government finances became more and more embroiled. But they also wanted the bank as a means of securing ready access to the money markets of Europe,

and they came to see that the grant of a privileged concession – involving, for instance, a monopoly of note issue – provided a means of securing a large loan on more favourable terms than would otherwise be available.

The other principal respect in which things had changed since before the war was the degree of interest in the Ottoman Empire on the part of western, particularly British and French, entrepreneurs, financiers and investors generally. Until the early 1850s this had been distinctly limited. However, the circumstances of the war had drawn a number of leading western financial houses into the field of Ottoman finance. These included Dent Palmer of London who handled the 1854 loan, and the Rothschilds of London who were responsible for that of 1855, as well as the Rothschilds of Paris who handled a succession of large advances to the Porte against the proceeds of both loans and came to assume responsibility for remitting to Europe the funds needed to service them. They also included the Parisian *haute banque* firm of Pillet-Will, and the recently established but already powerful Paris-based *Crédit mobilier* of the Pereire brothers, arch-rivals of the Rothschilds, whose intervention seems to have cost the latter the 1854 loan.³⁹ Besides all this, the war years had seen a huge jump in trade between the empire and Europe, particularly Britain, mainly in the form of increased Ottoman imports which almost doubled in value from 1854 to 1855. Associated with this, and with the passage of large numbers of allied troops through Constantinople, there had been an influx of foreign business people of all kinds.⁴⁰ The war itself had also generated a great deal of publicity about the empire and its economic possibilities, and optimism about the latter was further increased by the new momentum which the reform movement there seemed to have acquired. The *Hatt-ı Hümayun*, the great reform decree promulgated, with insistent prompting by Britain and France, in February 1856, seemed to be a clear statement of the government's good intentions in this respect. And indeed, along with more general references to the latter's concern to develop the country's resources, it included a specific statement of its determination to create banks.⁴¹

In the new climate of opinion in London and Paris, however, it would no longer be necessary for the Ottoman government to provide all the initiatives itself, now that the eyes of even the greatest financiers of Europe had begun to turn towards Constantinople. Indeed, the opportunities – whether in financing foreign trade, accommodating the government, or promoting public works – that awaited a well-capitalized European bank seemed to be so extensive, and the profits to be made so substantial, that even at the height of the conflict with Russia there were those who were laying plans for the establishment of one. And certainly by the autumn of 1855, with Sebastapol in the hands of the allies and the probability of an early end to hostilities, a

number of rival schemes were being concocted more or less simultaneously in London, Paris and Constantinople. In the first of these cities Peter Pasquali, an *zmir* Greek by origin, who was concurrently launching the Bank of Egypt, and his associate Stephen Sleigh, had already approached Glyn's in the hope of enlisting their direct support, and had begun the process of obtaining a royal charter from the British crown while simultaneously despatching a representative to Constantinople to secure a *ferman* from the Sultan.⁴² In Paris the Rothschilds had decided that it would not do to allow others to steal a march and deprive them of the leading position in Ottoman finance that their war-time services had given them. Early in January 1856, therefore, Baron James de Rothschild sent his son Alphonse out to the Golden Horn in order to assess the situation and to begin *pourparlers* with the Ottoman government. Nor was the *Crédit mobilier* far behind. Constantinople in 1854 was the first occasion when its competition had materialized as a real threat to the Rothschilds' financial hegemony of Europe, and the Pereires were as determined to pursue the contest there as they were to carry it to Austria, Spain, Italy and Russia.⁴³

The *Crédit mobilier* challenge was indeed a formidable one. On 22 February, no doubt after much preparatory work, a meeting had been convened which was attended by many of their allies among the Paris *haute banque*. Its purpose was to discuss '*la fondation à Constantinople d'une institution de crédit qui aurait tout à la fois le caractère d'une banque de circulation et de prêt, en même temps qu'elle jouerait le rôle de société commanditaire de l'industrie*', and by the end of the afternoon it had been agreed to seek a concession for such a bank with an initial capital of Frs 55 million with provision for a subsequent increase to Frs 100 million. Of this the Pereires were to subscribe Frs 7.5 million; Simons and Béhic of the *Messageries impériales*, Frs 6.25 million; Fould and Fould Oppenheim, the main associates of the Pereires in the founding of the *Crédit mobilier*, Frs 5.625 million; and Hottinguer, André, d'Eichthal, Laffitte, Mallet *frères*, Biesta (of the *Comptoir d'escompte de Paris*), Grieninger, Seillière and others, lesser sums. All these houses were associated with the *Crédit mobilier* in numerous other enterprises in the 1850s, but on this occasion an international element was added to the alliance by the adhesion of Baring Brothers of London for Frs 5 million, and Sina and Eskelès of Vienna also for Frs 5 million, while Galata was represented by Jacques Alléon, who was to contribute Frs 1.25 million.⁴⁴ Nevertheless, the project was essentially French, and a strong bid was made for French government support with a promise by the promoters in a memorandum to the Emperor that, if successful, they would always regard it as an important duty to support and indeed to expand French political and economic influence. The scheme which, it was reported by Marinitsch, the Rothschild agent in

the Ottoman capital, had been laid before the Porte by 'Monsieur Fould' in the last week in March 1856 was probably this one.⁴⁵

By March, indeed, with the *Hatt-ı Hümayun* promulgated, and the peace conference at Paris in session, interest in the economic prospects of a land which was now improbably being acclaimed as the new California was running very strongly indeed. Projectors and promoters of banks, railways and many other undertakings were arriving in Constantinople by every boat, seeking concessions and offering to raise the capital which, they believed, was all that was required to unlock the riches of an empire that was at last taking its place as a member of the community of civilized nations. Propositions for banks 'are pouring down upon us from all quarters', wrote one of the concession hunters even before the end of February. A month later, Marinitsch quoted his highly-placed source at the Porte as complaining, '*nous sommes assiégés de projets de banque, finances etc*', while a correspondent of *The Times* reported that no fewer than fourteen different banking schemes had been submitted to the government. There was a scheme for an English *Crédit mobilier* bank advanced by a certain Mr Brandeis which the ambassador, Stratford de Redcliffe, thought ought to be encouraged. Two perhaps slightly less than reputable French financiers, Messrs Couturier and Trouvé Chauvel,⁴⁶ the latter a former Finance Minister of the Second Republic, were hoping to convince the Porte of their ability '*d'embrasser le monde entier, banque, hôtel des monnaies, chemins de fer etc etc*'. They may have been acting on their own account, but were more probably the representatives of some syndicate which, as indicated below, may have been that of the Paris *Crédit mobilier*. Similarly grandiose in its ambitions, and more prestigious in composition if not necessarily more substantial in terms of its financial backing, was a British group nominally headed by the railway magnate and Member of Parliament Sir Joseph Paxton, and represented locally by a certain Atkinson Wilkin.⁴⁷

Faced with this plethora of competing proposals the Ottoman ministers remained undecided, '*le bec dans l'eau*', for a considerable time.⁴⁸ For the moment anyway Âli Pasha, the Grand Vezir, was away at the peace conference, and so important a decision as the grant of extensive financial privileges to a powerful group of foreign bankers could not be taken in his absence. But even when he returned no early decision was forthcoming. This was not simply because of the technical problem of evaluating numerous probably very similar schemes, and the length of time required to carry out the detailed negotiations with several different parties simultaneously. Nor was it just because the process of arriving at any decision was complicated by the perennial factional rivalries which divided the Ottoman ministers and led some of them to support one course of action, and others another, for reasons

that had little to do with their intrinsic merits. The fact was that the political implications for the Porte of the decision it was about to take were far-reaching, and it faced the dilemma that, with a number of the schemes before it, there was an inverse correlation between their financial advantages on the one hand and their political desirability on the other. A privileged state or national bank with a wide range of functions such as the Porte was now determined on would clearly hold a position, potentially at least, of very great power. Were such a concession to go to a concern that was either exclusively English or exclusively French, it would give the favoured nation a great deal of political and economic leverage in Constantinople at the expense of the other, as the two ambassadors, Stratford de Redcliffe and Thouvenel, were of course well aware. Neither, therefore, was prepared to permit such an outcome without vigorous protests. Besides, from the point of view of the Porte, to award the concession to such an exclusive concern would be to put itself, financially speaking, in the pocket of one of its allies, while antagonizing the other. It is unsurprising, therefore, to find that throughout the negotiations that began in mid-1856 and continued intermittently until January 1863, the Ottomans were ever anxious to try to broaden the national composition of the various syndicates whose proposals came before them, and that the rival promoters were constantly looking for allies and discussing possible fusions, in large part so as to assuage this anxiety.

Certainly it could not be said that the Rothschilds were exclusively French, despite the primacy of the Paris branch in family terms at this time and its close relations with the French government, for the House of Rothschild was also a powerful presence in London, as well as in Vienna, Frankfurt and Naples. And this internationalism was a characteristic of which their representatives periodically reminded the Ottoman ministers. Their strongest claim to be awarded the concession for the national bank was, however, the undoubted fact that in terms of reputation and resources they stood head and shoulders above all rivals, and a bank formed by them would certainly enable the Porte to secure the best possible terms for any financial operations it might wish to undertake. On the other hand, the very internationalism that enabled them to avoid the charge of being exclusively French was a reflection of the fact that they were so powerful in their own right that, if the Ottoman state committed itself financially to them, its independence would be just as seriously compromised as if it had chosen a purely English or French bank, and that if a clash of interests arose those of the empire might well be sacrificed to those of the Rothschild family. The Porte, as a far from disinterested A. H. Layard told Reşit, but with perhaps pardonable exaggeration, would thus become just one more branch of the family firm. Such a national bank, he continued, would be just one more Rothschild operation in yet

another European capital, which would be damaging both to the national pride and the material interests of the Ottoman state.⁴⁹

Besides, for all their willingness to consider the overtures made by the great capitalists of the West, few if any of the Ottoman ministers favoured the idea of granting them the national concession if an indigenous alternative could be found. This would, of course, have to be based on some combination from within the ranks of the Galata bankers, who since the Crimean War were richer than ever and had even stronger links with the banking houses of the West.⁵⁰ Without doubt collectively they could command most, if not necessarily all, the millions required for a new state bank. In mid-March Marinitich reported to the Paris Rothschilds that in ministerial circles '*la maxime predominate du jour est celle de s'aider, si possible, en famille, c'est à dire par le ministre de ses propres sujets, sans recourir à l'étranger*', and several weeks later he quoted one of the Pashas as reiterating the old axiom that there was no need to rely on foreigners, and that those who had provided good service in the past deserved to be given preference. Two months later the Porte was still hoping that the local financiers could somehow be used to keep the westerners out. One of them, Jacques Alléon, told his Parisian correspondent '*Ces messieurs (les ministres turcs) travaillent toujours à leur fameux projet qui est de faire qqe chose avec l'élément du pays*', and he specifically mentioned Fuat Pasha, the Foreign Minister, as working to that end. And he wrote on another occasion that in the last resort they wanted to make it a *Turkish* national bank, adding that this was for the obvious reason that they were afraid of the interference in their internal affairs that might be the result of granting the concession to a western concern.⁵¹ Whether it was realistic for the Porte to expect to borrow western capital, even through the medium of a Galata-based syndicate, without running any risk of interference, was of course a question.

That the bankers of Galata had become so wealthy in the first place by exploiting the chaotic state of the Ottoman currency, the consequently unstable exchange rates, the financial exigencies of the Porte, and the general scarcity of capital in the empire, did not mean that their interest in a measure intended to alleviate these evils was insincere, or that their proposals were made merely to try to block those made by foreign self-styled well-wishers such as A. H. Layard. There was money to be made from a national bank, too, and, besides, reformed poachers often make the best gamekeepers, as Alléon and Baltazzi had, albeit rather ambiguously, already shown with their Banque de Constantinople. As for their inability to raise all the capital needed, every one of the schemes involving them seems also to have involved some kind of co-operation with one or more European house. It might have been thought likely that the Galata bankers' reputation for speculation, and their dubious

commercial morality, would have made it difficult for them to borrow on the European money markets for projects in which European investors did not share control, but this does not seem to have deterred western financiers from entering into partnership with them. One of the schemes of March 1856 reported by Marinitsch involved the French banker Durand allying himself with a group including Camondo, Baltazzi, Flori and others, and as we shall see a variety of similar ententes were discussed or actually formed in the following years. A final argument advanced by the detractors of the native bankers was that many of them were Greek, and held foreign citizenship of one sort or another, so that to entrust the national bank to them would be to hand it over to individuals who not only did not identify themselves with the true interests of the Ottoman state but were actually its enemies. How far the latter may have been actually true is doubtful, for even if some of them had emotional attachments elsewhere they knew very well that their material interests were very much tied up in the maintenance of the Ottoman status quo. Anyway, it does not seem to have worried the Porte which doubtless reckoned to be able to exert a considerably greater degree of control over a group of its local financiers, at least *some* of whom *were* its own citizens, than over a syndicate based in London or Paris.⁵²

As 1856 wore on, some of the leading contenders for the banking concession dropped out of the race. The arrival of the expansive and ebullient M. Couturier, for instance, had been awaited with a good deal of excitement, but the Porte rejected his propositions as soon as, if not before, they had been officially submitted. Couturier, indeed, was also one of the participants in the *Crédit mobilier* scheme and there is some evidence that his mission may not have been intended as anything more than a diversionary tactic to deflect interest from some of its rivals.⁵³ If so it was wasted ingenuity, for the master scheme itself was destined to fall by the wayside in an unexpected manner. By the latter part of May the Pereires and their allies in the *haute banque* had refined their original proposals of 22 February, and if anything extended their scope. The bank to be established, their negotiators were told,

devait être un établissement puissant, constitué sur de larges bases, destiné à devenir l'instrument et l'organe de l'industrie générale en Orient. Elle doit être à la fois banque de circulation, banque de dépôt, banque d'escompte, société commanditaire de l'industrie. Elle doit réunir les caractères et les attributions de la Banque de France, du Comptoir d'escompte et de la Société générale de crédit mobilier.

The initial capital for this all-embracing institution was now to be Frs 60 million. The negotiating team was to consist of Henri Place and Frédéric Grieninger, both wealthy bankers in their own right, assisted by an associate with local knowledge and experience, Contarini. If the Pereires had had their

way Ernest André, a more important member of the syndicate than either of the foregoing, would also have gone out to Constantinople, but Place objected that his presence would detract from his own prestige and authority. This was ironic, for just as they were all about to take ship at Marseille for the voyage to Constantinople, Place was declared bankrupt. This completely aborted the whole mission. None of the three men embarked, and Place and Grieninger returned to Paris.⁵⁴ The first man in Constantinople to hear the news was inevitably Alphonse de Rothschild, and he made sure that it immediately became common knowledge. '*Cette nouvelle a parcouru la ville comme un éclair*', wrote Jacques Alléon dispiritedly to Fould and Fould Oppenheim in Paris, '*jugez de l'effet fâcheux qu'elle a fait et de toutes les conséquences l'on a tiré et que l'on en tirera - c'est un tolle général contre le Crédit mobilier.*' How was it, the Ottomans wanted to know, that Place's associates had been unwilling or unable to save a man who a few days before had been worth Frs 15 million? How was it that they had not known the truth about his financial situation when they chose him to represent them in exceedingly important negotiations? The prestige of the *Crédit mobilier* was badly affected, and although another member of the group, Baron Seillière, was on his way to Constantinople within a fortnight, the damage had been done. Alléon reported back that Fuat and his colleagues now just shrugged their shoulders when anyone mentioned the *Crédit mobilier*. The fact that the French government had, for reasons unconnected with the Place fiasco, shifted its diplomatic support from the *Crédit mobilier* to the Rothschilds was a further nail in the former's coffin.⁵⁵ As late as August one of Emile Pereire's Constantinople correspondents urged that if he or his brother were to come out in person they might yet secure the *ferman*.⁵⁶ But neither did come, and so the *Crédit mobilier*'s bid for the national bank lapsed, although as we shall see it was to be renewed some years later with very different results.

The withdrawal of the *Crédit mobilier* from the competition for the concession was followed by that of the Rothschilds. An initial enthusiasm for the idea of founding a bank in the Ottoman capital seems to have diminished as Alphonse gained direct and personal experience of what negotiations with the Porte were actually like, and the discomfiture of their main rivals provided an assurance that breaking off negotiations would not result in a victory for the Pereires. However, as fast as the first wave of bank promoters fell back another came on. '*Rien d'extraordinaire de nouveau,*' wrote Marinitsch on 23 June 1856, '*seulement les projets de banques pleuvent, et se reproduisent comme les asperges*', the then latest combination seemingly being one involving some unnamed Belgian financiers and certain local bankers.⁵⁷

Out of all the many schemes of 1856 only one actually came to fruition in any form that year, and this was the very first in the field, although it did

so not because it was first but because it was one of the most modest in the intended scope of its operations. The original Pasquali–Sleigh scheme for a ‘British Bank of Turkey’ had, during the winter of 1855–56 passed out of the hands of its originators into a group in which George Grenfell Glyn, of Glyn Mills and Co., and James J. Cummins of the London-based Union Bank of Australia were the most prominent members. This group had in turn merged with another headed by Messrs Hankeys, also well-known London bankers, which had likewise been planning to commence operations at Constantinople. In early February 1856, thus enlarged, it had recruited as chairman of its board of directors Austin Henry Layard, famous archaeologist and one time aide to Stratford de Redcliffe at the Constantinople embassy, now a Member of Parliament and forcefully outspoken critic of the conduct of the Crimean War, but who retained many contacts in the Ottoman capital. It also adopted the name of ‘The Ottoman Bank’. But whereas Rothschilds, the *Crédit mobilier*, and many of the other bankers whose representatives had been crowding into Galata in the early months of 1856, had in mind extremely large concerns based on an extensive grant of privileges from the Ottoman government to operate as a ‘national’ bank, the Glyn–Hankey–Layard consortium were, at least initially, interested only in ordinary commercial banking operations. This meant that there were no particular political complications to be overcome, and no need for lengthy negotiations with the Ottoman government in order to secure special privileges. Indeed, under the terms of the 1838 Anglo-Ottoman Commercial Convention it was even doubtful whether they needed *any* official authorization to commence a purely private banking business. For some months they felt that the issue of an imperial *ferman*, or rather the confirmation of the one granted to the short-lived bank of 1853 which they had acquired from the original grantees, was necessary to satisfy would-be backers at home. However, Stratford de Redcliffe was strongly opposed to this request for a *ferman* when one was not needed, although he did secure a simple sanction from the Sultan. On this basis the bank opened its doors in Galata in the middle of June 1856, occupying ‘three or four miserable rooms’, for which it paid an exorbitant rent.⁵⁸

The new Ottoman Bank was thus a British bank operating in Turkey, its shareholders having limited liability under the terms of its royal charter. Initially it was decided to raise no more than L.S 500,000 by way of capital, and given the reputation of its backers and the current climate of opinion about the economic prospects of the empire, a successful launch was almost a foregone conclusion. The relatively modest capital reflected the determination of its founders to begin by confining themselves strictly to ‘the limited business of a private commercial bank’ and to keep clear, for the moment, of the massive, potentially lucrative but dangerous field of Ottoman public

finance. This circumspection was something that Stratford de Redcliffe thoroughly applauded; otherwise, he told Layard, 'by starting with the dash of a fox-hunter you might find yourself ending in a wild goose chase'.⁵⁹ And even the normally routine business of providing the financial accommodation for the import-export trade was more risky and speculative at Constantinople than in the main commercial centres of western Europe. Rates of exchange between the Ottoman and other currencies were exceedingly unstable, and the hostility of the indigenous bankers of Galata to this new and powerful rival was fierce and liable to burst forth whenever the latter saw a chance of embarrassing those responsible for managing it. Thus, less than a month after it had commenced business some unexpected political news led to '*un vrai orgasme*' on the Constantinople exchange, and during the course of this confusion a group of hostile dealers converted the entire *bourse* into '*un foyer d'intrigues bien désagréables pour la banque Layard*'. The Bank thus made a distinctly shaky start, but although in the first annual report the chairman admitted they had had 'a difficult battle to fight' and had 'naturally met with much opposition', they had survived and indeed prospered.⁶⁰ In any event, although Constantinople was not only the capital but also a major commercial centre, it by no means dominated the empire's foreign trade, and for an avowedly commercial bank an extension of its operations to the great port cities of the provinces was a high priority and had been envisaged from the outset. So within a few months the Ottoman Bank had opened branches at Galati on the Danube (July 1856), zmir (September) and Beirut (October), while the nomination of agents at Sinop, Samsun and Trabzon on the Black Sea coast of Anatolia, and no doubt elsewhere, had been under discussion even before operations had begun in Constantinople.⁶¹

However, mere commercial banking did not represent the limits of the promoters' ambitions. As Layard told Stratford de Redcliffe in February 1856, their limited short-term objectives were not intended to debar them 'from entering hereafter into more extensive financial operations with the Turkish government'. Rather they had begun this way as a matter of tactics. To become established in the capital as quickly as possible, to develop a solid reputation, and thus to be able to negotiate with the Porte for an extension of their functions into the sphere of governmental finance as a going and respected concern would, they hoped, give them a competitive edge over their rivals in the contest for the concession to operate a national bank. The power reserved to the bank under its charter to quadruple its capital to LS 2 million had undoubtedly been inserted with such an extension of functions in mind, and from the very beginning, concurrently with organizing itself as an ordinary commercial bank, it had also been trying to win the national concession. No sooner had it come into existence than it was approached by at least two of

the groups of French financiers interested in Ottoman finance. The *Crédit mobilier* group proposed a fusion on terms which would have given the British concern one-third of the capital in a joint Anglo-French venture, but this was rejected out of hand. The other suggestion emanated from the Parisian firm of Donon Aubry and Gautier, which had already enlisted the support of the London house of Thomson Bonar and Co. but needed further allies in order to be able to compete against the *Crédit mobilier* on more nearly equal terms. Their idea was to secure an effective monopoly of long-term lending to the Porte by offering a loan so large that other potential lenders would be squeezed out altogether for the foreseeable future. The Ottoman Bank was anxious to do what it could to neutralize French competition and so willingly entered into negotiations, the more so since the group was to be formed only for the purpose of raising the loan, thus leaving the directors still in complete control of the Bank as such, but with the prospect of securing a position at Constantinople so powerful that the national concession could scarcely fail to become theirs.

Early in April 1856, therefore, two representatives, one English (Ede, himself a banker of Galata, suggesting there may have been a local element in the syndicate) and one French (Yvan), were despatched to Constantinople. They were instructed to draw the attention of the Porte to the particular significance of their proposals for 'an object which we are led to believe his Imperial Majesty has greatly at heart, namely, the development, by the construction of necessary public works, of those great natural resources of the Turkish dominions which, if properly managed, cannot fail to place the Ottoman Empire in the ranks of the first commercial countries in the world'. And they were also to stress to ministers the advantage that would be gained for the empire if they were to engage themselves to 'a combination of French and English interests and influence'. The amount of the loan to be dangled before the Porte was what at this period appeared to be the huge sum of LS 20 million (nominal presumably), to be advanced over a period of five years or more. This was much more than the combined total of the 1854 and 1855 loans which came to only LS 8 million nominal.⁶² Lord Clarendon commented rather nervously that '20 millions sounds rather fabulous and as if addressed to the Eastern imagination' but, believing that the scheme 'has in it the germs of great Turco-British political results', he promised full diplomatic support.⁶³

The French government, however, responded with some alarm once it became clear that the new syndicate would in fact be dominated by the Ottoman Bank, especially since the latter was headed by so politically influential a figure as Layard. Walewski wrote to Thouvenel to remind him that if the latter secured a privileged concession, the London money market would achieve a predominance over that of Paris in respect of Ottoman affairs to

which the French government could not remain indifferent. Consequently, in this case the ambassador was to go beyond the neutrality between different French claimants for economic concessions which had been prescribed a short time before, and put his weight behind the *Crédit mobilier* proposal which was the only one which at that time seemed likely to be able to stop Layard. For, as Walewski told Thouvenel in a later letter, despite the Parisian element, Layard's group was not really Anglo-French at all but essentially British for '*ni M. Yvan, ni M. Donon ne sont de calibre à représenter sérieusement les intérêts français.*'⁶⁴ The details of the Layard scheme in the form in which they were actually presented do not emerge, but they were probably similar to those contained in a paper discussed by the Court of Directors at this time. LS 5.32 million out of the proposed loan would be devoted to the creation of a sound currency, in return for which the Bank would be authorized to issue notes, but without having an exclusive privilege in this respect, up to the value of its paid-up capital. The actual administration of this part of the loan, and the process of withdrawing the depreciated paper and debased coin, and their replacement with a sound metallic currency, would however be undertaken by the government itself, thus throwing upon it all the risks involved. Some of the other national bank schemes on foot at this period seem to have envisaged the bank itself undertaking all this, which would certainly have offered a large profit but necessarily involved considerable hazard.⁶⁵ The balance of the loan, nearly LS 15 million, was, presumably, intended to finance railways and other public works.⁶⁶

As chairman of the Bank Layard twice went out to Constantinople during the course of 1856 in order to lobby his friends and acquaintances among the Ottoman ministers in support of its proposals. After his first visit in June, having told a correspondent that his object had been to induce the Porte to 'enter into financial arrangements for an entire reform of their currency and for undertaking a sound system of public works', he added, 'I think I have succeeded to a certain extent.' This impression was shared by Alphonse de Rothschild who told Thouvenel that '*le gouvernement avait ... donné une sorte d'assentiment aux plans de M. Layard*', adding that if the scheme went ahead the bank he represented, which hitherto had enjoyed no particular privileges and was only a private concern, would become a governmental bank and thereby acquire a substance which for the moment it entirely lacked. However, the Porte was not to be hurried to a final decision. Ministers may still have hankered after an indigenous, or at least partly indigenous national bank, and they certainly wanted to widen the basis of the Layard coalition by increasing the French participation, if possible to include the Rothschilds. As Fuat put it to the French ambassador, the Porte wanted the Anglo-French co-operation which had saved the empire in the recent war, as far as possible to be continued

into the peace, with English and French interests each having an equal share in the new concern.⁶⁷

In the event, therefore, the government decided not to conclude the deal which Layard thought he had secured, but instead to work out a set of proposals of its own for a national bank in association with the raising of a loan. It would then present them to the various financial groups interested in securing the concession; as Stratford de Redcliffe put it, 'those who can bring themselves to approach most nearly to its conditions will necessarily be most in favour'. The proposals, when they emerged, were ambitious. With a capital of LS 3 million and a twenty-five-year concession, its function and operations were to be '*a l'instar des Banques d'Angleterre et de France*'. Besides discounting commercial bills, taking deposits and making advances, it was also to discount Treasury Bonds, pay the interest on state loans at Constantinople, and to handle the transmission of government revenues as requested. It was empowered to open branches in the provinces, and part of its capital was to be devoted exclusively to advances to help agriculture and industry under a special set of regulations to be agreed with the government. It might issue notes up to the full value of its capital, and to make this feasible the government undertook to withdraw the existing paper money as well as the debased coinage, out of the proceeds of a LS 5 million loan. The scheme was perfectly sound, but the Porte's sudden adoption of this new approach involved delays which proved to be fatal to its viability. It was late August before the proposals were ready and not until early October did Fuat Pasha as Foreign Minister commence discussions with the four main contenders for the concession, that is the Ottoman Bank and its allies, the Rothschilds, the Paxton-Wilkin group, and a Galata consortium represented by Théodore Baltazzi. The change of ministry at the beginning of November, when Reşit returned to the Grand Vezirship in place of Âli, then caused a further hold-up as there was renewed discussion in the Council of Ministers of the terms to be granted, with Âli and Fuat seemingly raising obstacles to the acceptance of a scheme they had themselves been promoting only a few weeks before. It was, therefore, only in the last week of the year that the Porte was at last ready to reach a decision.⁶⁸

3. The Second Phase of the Battle for the 'National' Concession

It was in these new circumstances that the Ottoman Bank directors asked Layard to go out to Constantinople a second time. He set off in mid-November 1856, albeit after protesting in a private letter that the prospect of doing battle with opposition agents was 'very vexatious ... and *contre-coeur*'. On arrival he found that 'everything is sacrificed to the intrigues and dissensions of the

various foreign missions'. This can hardly have surprised him in view of the political implications of the issue, but he doubtless found it particularly galling because Stratford de Redcliffe, with whom he was on poor terms personally, seemed at best ambiguous in his support, although Layard was wrong in thinking him actually hostile.⁶⁹ Judging by his written submissions to Reşit and Ethem Pashas, Layard's efforts in Constantinople were not confined to pointing out the strengths of the Ottoman Bank's claim to the concession, but extended to denigrating those of the two rivals he took seriously: the Rothschilds and Galata. He did, however, urge yet again that his group was an Anglo-French one, and stressed its willingness to extend membership to include the more substantial of the local bankers, thereby appealing to the Porte's known predilection for the latter, as well as attempting to defuse their hostility. Indeed, he went further and offered the prospect that a truly international bank might be established by drawing in a significant Austro-German element through the medium of the Viennese banker Weikersheim, who was already on the Ottoman Bank's board of directors.⁷⁰

When it came to it, however, Layard was unable to accept the terms that Reşit was now demanding which, particularly in the matter of government appointment of some of the future bank's directors, were less favourable than those originally formulated. On 27 December the representatives of the four rival groups of financiers were summoned to the Porte where they were received by the Grand Vezir, who formally offered the national concession to each in turn on the new set of conditions. Three of the four, possibly by prior agreement among themselves, refused it. The fourth, however, Atkinson Wilkin, the representative of the Paxton syndicate, was willing to accept.⁷¹ This group had undoubtedly been the outsider in the contest, and Layard had so little regarded its chances of success that in his memorandum to the Ottoman ministers of a fortnight earlier he had not even bothered to try to undermine it. For a start the group was exclusively English in composition, and while it included one or two figures from the established financial world of London, most notably Mark Hunter, chairman of the Commercial Bank, they were not major figures in the City. It signally lacked connections in and experience of the financial world of Constantinople. And finally the presence within it of a solid group, which included the chairman, Sir Joseph Paxton, Samuel Laing,⁷² Matthew Uzielli and the famous Thomas Brassey, whose main interests were notoriously in railways, along with the ironmaster Abraham Darby and J. A. Chowne, director of the Telegraph Company, left no doubt that they were more interested in the public works contracts that would fall to the proprietors of a national bank than in banking for its own sake. But doubtless just because it was so manifestly the weakest of the three main foreign groups competing for the national bank, and because it expected to

make most of its money from building railways, it was prepared to pay a higher price for the bank than its rivals. On the day after the meeting at the Porte, the Ottoman Bank's new local manager, Falconnet, addressed a long letter to Stratford de Redcliffe to try to enlist his help in blocking Wilkin, but to no avail. The fact was that the latter and his backers *were* willing to accept the package of proposals that Reşit had determined on, and they had matched Layard's offer to internationalize the Ottoman Bank by agreeing to open their subscription lists in England, France, Germany and Turkey on fully equal terms. Perhaps inevitably the disappointed parties cried foul, loudly denouncing the practicability of the deal struck and 'throwing out charges of clandestine arrangements ... between the Turkish ministers and Mr. Wilkin'. Layard took his defeat particularly ungracefully.⁷³

Nor was the Paxton-Wilkin group by any means home and dry. Before their outline agreement with Reşit became a firm concession a detailed convention and set of statutes had to be drafted, and then approved both by the committee of ministers and financial experts set on foot to consider the bank issue, and the full Council of Ministers. The first of these bodies included several Galata bankers indirectly if not directly involved in one of the rival syndicates, and several of Reşit Pasha's political rivals, notably Âli and Fuat, were members of the second. A hard fight was therefore only to be expected. Some of the issues raised may have reflected genuine misgivings about the financial proposals, but the real battle was a political one, with Thouvenel, the French ambassador, working through Âli and Fuat to try to defeat a scheme which he saw as far too favourable to British interests, while Stratford de Redcliffe attempted to ensure that Reşit did not back away from his original decision. In the event Reşit held firm and by the beginning of March 1857 the concession had been passed to the Palace for the Sultan's formal approval,⁷⁴ but the question that still remained was whether the concessionaires could get their grandiosely named Imperial National Bank of Turkey (INBT) off the ground. Stratford de Redcliffe had had his doubts about this from the first, and the directors of the Ottoman Bank were certain that they would never do so, at least on their own, and for that reason did not take advantage of overtures to enter into negotiations for a fusion which reached them as early as late January.⁷⁵

The INBT was committed to raising a capital of LS 10 million in the first instance, of which LS 7 million was to be devoted to currency reform in an operation whereby the depreciated paper was to be replaced by the Bank's own notes, which would thenceforward be the only legal paper money. But quite apart from the fact that LS 10 million was an enormous amount for a bank at this date, it was unrealistic to suppose that so much could be raised in the tightening conditions of the European money markets which characterized the

winter of 1856–57, as the financial crisis which had begun in the United States the previous autumn and rapidly extended to Britain, came to affect the rest of the continent. And clearly the 6 per cent interest to be paid by the Ottoman government on loans and advances made to it was quite inadequate when, by early April, the Bank of England had raised the discount rate to 7 per cent, and when no particular security was to be given for the money lent. Besides, the promoters' agreement that the Porte should nominate the governor, sub-governor and six of the twenty-four directors gave the Ottoman government such strong representation that it raised the possibility that in a crisis the board might act in the interests of the latter rather than of the shareholders, which necessarily undermined the confidence of would-be investors.⁷⁶

Perhaps the most fatal weakness of the scheme to which Reşit had committed the Ottoman government lay in the inadequate resources and doubtful reputation of the persons who were to carry it out. 'It was very foolish and improvident of the Porte', wrote Lord Clarendon, 'to enter upon such an enormous concern with men about whose power to fulfill their engagements they don't seem to have made an enquiry ... such men as Paxton, Laing, Uzielli and others ... not only would be unable to raise ½ a million of money but would damage any project with which they connected themselves.' Some of the other participants, he admitted, were respectable enough, but carried no weight on the Stock Exchange. In conditions of easy money these people might perhaps have successfully floated their bank, but by April 1857 conditions were such that they had no chance at all. As this became apparent Musurus, the Ottoman ambassador in London, sought the support of the governor of the Bank of England, and tried desperately to reconstruct the syndicate so as to include within it some more substantial City names. But, in the prevailing monetary conditions, no one was willing to lend their aid without such extensive modifications to the concession so recently granted as to require negotiations to begin all over again. This was completely unacceptable to the Porte, and before the end of the month the whole INBT scheme had ignominiously collapsed.⁷⁷ The truth was that the terms for a national bank which had been drawn up in August 1856 and amended by Reşit in November, and to which Wilkin had consented at the turn of the year, had been overtaken by events. Conditions had changed, and the long delays of the Ottoman government in getting down to serious negotiations in the previous year meant that the opportunity for striking a favourable deal for the establishment of the bank, which the optimism of early 1856 had offered, had been wasted.

Reşit, however, lost no time in reopening negotiations with the three groups which had been unwilling to meet his terms the previous December. As early as 13 April Ahmet Vefik wrote to tell Layard '*il paraît que la Banque Wilkin*

est coulée; la place ici est dans la consternation’, and continued with the news that the Grand Vezir was about to approach both Rothschilds and the Ottoman Bank and was perhaps hoping (as his predecessor had been eight or so months before) for a combination embracing them both. But Rothschilds were now definitely not interested. ‘*Nous sommes encore en pleine crise. Il n’y a rien à faire absolument pour la banque*’, wrote Baron James at the end of April.⁷⁸ By then Reşit was pinning his hopes on Galata, from whose ranks a new syndicate headed by the Baltazzis had come forward. But matters were now urgent, both because Reşit’s political enemies were likely to try to use his failure over the bank to unseat him and because news of the fiasco had led the exchange rate to turn very sharply against the piastre. He was therefore also considering other options, a bank managed by salaried commissioners appointed for life and an Austrian loan secured on the mines of the empire, and the Porte was ‘in a state of barren oscillation between conflicting schemes’ – as in truth it had been for most of the previous twelve months and more. The Galata scheme won the day, however, and was unveiled to a meeting of ‘the notables ... of the commercial exchange of this capital’, as Stratford de Redcliffe described them, in the middle of May. As it finally emerged some weeks later, it involved the raising of LT 5 million by way of capital for the bank and LT 10 million more in the form of a government loan. The local financiers could not, or at any rate would not, subscribe the whole of this, but no significant participation by western capital would be forthcoming unless those providing it could be sure of exercising an effective control over the enterprise. The Porte’s unwillingness to permit such foreign control of its state bank had been critical in the December negotiations, and the fact that the Wilkin group had been prepared to share control with the Ottoman government had been one of the reasons why their bank had been so coolly received in the City. The same stumbling block now re-emerged. Although the Ottoman Bank made it clear to the Foreign Secretary that they would be willing to co-operate with any local syndicate with whom Reşit might be treating, the latter seems still to have been determined to try to establish the national bank on the terms *he* wanted. The result was another, predictable, and indeed widely predicted, fiasco. A subscription list was actually opened in Constantinople on 1 July after a period characterized by Marinitsch as ‘*une activité Babylonienne*’ among the promoters of the scheme, who were headed by the Baltazzis, Psichari and Tubini – all Greeks. But Galata knew that it was on its own, and that any bank that might be formed in this way would be unlikely to inspire confidence abroad. According to Marinitsch, LT 900,000 was in fact subscribed, but it was not enough, and within a week this scheme too was dead.⁷⁹

By now Reşit Pasha was clearly desperate, but when after this seemingly endless saga of negotiation and abortive projects he turned again to the

promoters of the failed INBT, his search for a national bank threatened to degenerate into farce. In late July 1857 Wilkin came scurrying back from Constantinople to England to make another attempt at finding a consortium to carry the project through. But it seems the Porte had little real hope that anything would result from his mission, and allowed him only a month in which to come up with results. He could not do so, but in any event well before the month was up Reşit had lost office which would in itself have been enough to doom this new effort. Meanwhile, all the evils which the various bank schemes were to have alleviated, particularly those arising from a depreciating paper currency, continued to grow worse and the general state of the Ottoman government's finances was becoming increasingly serious. The possibility of a foreign loan independent of any bank scheme had been investigated but was impracticable in the then state of the international money market, despite the urgent need for one, and by the end of the year the Porte was relying on short-term advances from the Rothschilds to pay the interest on its existing debt.⁸⁰ When Reşit returned again to power in the autumn, therefore, he was prepared to clutch at straws and to take seriously a plan for a national bank which was a far cry from the grand ideas of a year earlier. This one was submitted to him by Daniel Revelachi, a minor local financier who had been one of the commissioners for the 1854 loan, and who was a confidant of both the Grand Vezir and Stratford de Redcliffe, having temporarily acted as dragoman for the British embassy earlier in the year.⁸¹ Revelachi did not represent any existing group, although he had been associated with the INBT scheme, and he was unabashedly playing the role of concession hunter, taking advantage of his close relationship with Reşit to secure the promise of a grant, on the basis of which he could enter into negotiations with those who could command the capital to take it up. Revelachi's tactics were to cope with the still tight monetary conditions by limiting the initial call for capital to the lowest feasible figure necessary for the bank as such, and to leave the loan needed to restore the currency to be raised separately and later; and he tried to forestall opposition by looking for backers in both London and Paris, as well as in Galata itself. His main British allies were Atkinson Wilkin and his brother Robert, while French finance was represented by the *Banque générale suisse*, a concern which despite its name and the fact that its headquarters were in Geneva, was in fact controlled by a group of Paris bankers. Reşit's unexpected death in January 1858 meant some delay, but doubtless because it promised to be at least partly indigenous and had a French element (unlike the exclusively English INBT, which he had opposed) his successor Âli Pasha allowed the scheme to proceed.⁸²

By May 1858, therefore, Revelachi had his concession for a 'Bank of Turkey', to be established with an initial capital of only LS 1 million, but

with provision for this to be increased to LS 2-3 million later. The concern was empowered to carry on all ordinary forms of commercial banking and to open branches in the provinces, and it was granted a monopoly of the issue of notes, which were to pass as legal tender in Constantinople and wherever the bank should have branches. It was to receive tax revenues and make payments from them, as requested by the government, and to make short-term advances against such receipts in return for Treasury Bonds bearing 6 per cent interest. On the critical issue of control, this was to be shared between the Porte and the shareholders but in proportions which offered more adequate guarantees to the latter than in the case of the INBT. The Ottoman government was to appoint the governor, sub-governor and two of the four auditors, but the other two auditors and all the other twenty-four directors were to be nominated by the concessionaires in the first instance and subsequently elected by the shareholders. There was, however, the restriction that at least six had to be Ottoman citizens and two-thirds of them resident in Constantinople, which was important because it inevitably meant, and was intended to mean, that control would be primarily in indigenous hands.⁸³ As we shall see, this was to render the concern suspect in some quarters, but on paper at least it was a scheme that looked eminently realizable and capable of providing the basis upon which a larger and more powerful institution could in due course be built. However, before it could become a reality there were two important matters that had to be resolved.

First of all the composition of the syndicate who were to take over the concession would have to be settled, and to the satisfaction of the Ottoman government. The concession issued at Revelachi's behest had been granted, jointly, to a deliberately unnamed group of London financiers and to the Banque générale suisse. Agreement on the list of names to be included among the former proved to be a lengthy process, involving a protracted correspondence between the Ottoman ambassador in London and the Porte. In fact it took nearly six months, an excessive delay which probably owed something to the latter's preoccupation with its worsening financial situation and the raising of the loan needed to reform the currency, but perhaps more to intrigues by hostile elements in Galata and differences between ministers as to the desirability of proceeding with the loan at all. Eventually in late October all appeared to be satisfactorily arranged, and then suddenly only a few weeks later the Ottoman government performed a *volte-face* and reopened the whole question.⁸⁴

This was mainly, perhaps entirely, the result of a last-minute offensive on the part of the Ottoman Bank to win, at the very least, a half share in the concession. The Ottoman Bank felt that it deserved this since the success of the government loan, referred to above, which had been issued in London in

September 1858, had been entirely due to itself, after the hostility of Greek finance had almost ruined its prospects and led the nominal contractors, Dent Palmer, to wash their hands of it. Fuat, the Foreign Minister, was in Paris at the same time and, according to one of the Ottoman Bank's directors, had been won over to their side and set off back to Constantinople 'fully prepared to urge our claim'. This was probably true, for it was only four days after his return that Âli, who was notoriously pliable and unable to stand up to his more forceful colleague, unexpectedly confronted the representatives of the National Bank of Turkey concessionnaires with an entirely new set of demands. The most important of these was that the Ottoman Bank should be included in the concession on equal terms with the London group and the Banque suisse. Revelachi complained bitterly that the Ottoman Bank people had not made any approach to be included before, even though they had known perfectly well that he and his backers had been negotiating for and had subsequently obtained the concession, but that since 'they tried and are still trying in every possible way, both in England and here, to take it from us altogether'. Certainly the Ottoman Bank was not willing to accept a one-third involvement, to which the NBT reluctantly felt constrained to agree. Its directors did not trust their potential co-participants, particularly the Greek bankers of London and Galata, who made up a large part of the 'English' element in the NBT syndicate, and felt that nothing less than a complete equality with all other elements combined would ensure the safety of their capital. Negotiations therefore broke down, and, finding that the ambassador Bulwer was under instructions – apparently unofficial but none the less explicit – to support the original concessionnaires rather than itself, the Ottoman Bank retired to fight another day.⁸⁵ At last, in February 1859, Revelachi's original concession was reissued in a definitive form to the financiers who were actually going to implement it.⁸⁶

Soon afterwards, however, the Banque suisse was obliged to stop payments and go into liquidation (April 1859),⁸⁷ which left the NBT as an almost entirely Anglo-Greek affair, and in the new combination the Greek element was preponderant. Layard, in a typically intemperate letter, dismissed it as 'a mere Greek speculation', and alleged that all the capital was provided by the Greeks and that the proposed quotation on the Stock Exchange was 'a mere dodge to deceive the public and the Turks'. This was clearly an exaggeration for there were also several respectable and by no means insubstantial figures from the City of London, notably William Gladstone, a distant connection of the famous statesman and a partner in the solidly established firm of Thomson Bonar, as well as Weguelin, a former governor of the Bank of England. Also included were the two most important British bankers of Galata, Messrs Black and Hanson, whose reputation was generally accepted as unimpeachable.

Nevertheless, when the NBT prospectus appeared later in the year, two of the four London directors were Greek – Michel Rodocanachi and Bernard Tubini – as well as at least eight if not nine of the fourteen who were resident in Constantinople. Of the Greeks of Galata only Mavrogordato could be said to be one of the really wealthy financial grandees of the place. There had in fact been a fierce struggle in Constantinople between rival factions of Greek bankers and their allies, as the powerful oligarchy of major houses (Baltazzi, Zarifi, Camondo and a few others), whose enormously profitable stranglehold on Ottoman government finance would be threatened by the successful establishment of any state or national bank that they did not themselves control, tried to force their way on to the board. Revelachi had to summon Rodocanachi out to the Golden Horn to help him resist this attempted take-over, but together they were apparently successful.⁸⁸

The NBT concession, as issued in February 1859, provided that it was to commence operations within six months, but an additional article, inserted it would seem as an afterthought, modified this by stating that commencement would not be until three months after the withdrawal of the paper money was complete. The issue of the bank's own notes, up to the value of three times the amount of specie held, was a critical element in the privileges granted to it, and clearly it could not begin until the government had restored some stability to the currency by withdrawing the progressively depreciating *kaime*.⁸⁹ To raise the necessary funds the Porte had eventually succeeded, as we have seen, in raising its third long-term foreign loan of LS 5 million nominal in London during September 1858. At least it succeeded in raising the first LS 3 million and at the very respectable rate of 85. The remaining LS 2 million, however, was not placed until well into 1859, and did not do nearly so well, going off at only 62½, a fall which in part reflected the investing public's perception of the increasing chaos into which Ottoman finances were sliding and in part the blow to confidence administered by the war in Italy which began in late April. Altogether, therefore, only LS 3.8 million (less whatever commission was paid to Dent Palmer who made the issue) was made available to the Ottomans, which would not have been enough to deal with all the *kaime* in circulation, even if the whole amount had been applied to the avowed purpose of the loan, which seemingly it was not because of other urgent financial needs.⁹⁰

According to the commissioners appointed to supervise the process, only Ps 70 million of *kaime* out of a total of Ps 619 million remained in circulation after the withdrawal operation was finished. This figure seems suspiciously low, but even if accurate it meant that the operation had not been fully successful,⁹¹ and that in turn meant that the opening of the NBT would have to be postponed. After so much negotiation and so many plans the empire

was thus *still* without its national bank, and things had now reached a pass in which the financial embarrassments of the government which made such a bank necessary, were so acute that its actual establishment had become very difficult if not impossible. This was a vicious circle that was to prove hard to break.

4. The Crisis of Ottoman Finance

Meanwhile, during these years when the creation of a national bank had been the subject of so much discussion, the general financial situation of the Ottoman government had been progressively deteriorating. Already persistently unsatisfactory before the Crimean War, the heavy expenditure of the war years had, despite the two foreign loans of 1854 and 1855, rendered it parlous. Moreover, by the end of the decade, few if any effective reforms had been made in the way in which the state's finances were administered, despite the good resolutions enunciated in the *Hatt-ı Hümayun*.⁹² On the one hand, the abuses connected with revenue farming continued to ensure that while taxation was very burdensome to those who paid it, it yielded far less than it might have done to the Treasury. On the other, the lack of any proper budgets, either central or departmental; inadequate and incomplete accounting; almost universal corruption among those through whose hands public money passed; the lack of any distinction between the expenditures of the state as such and those of an extravagant Sultan and Palace clique; the inflationary effects of a continually depreciating paper currency; and the ready availability, but high cost, of short-term credit from the financiers of Galata – all ensured that spending proceeded unconstrained by the limitations of the revenue.

The worsening situation, and the need to make a favourable impression on European opinion in view of the loan negotiations then in progress, led to an economy drive, announced in the *hats* of August 1858. It did not last.⁹³ Just over a year later the representatives of all five of the powers which, at the Peace of Paris, had undertaken to guarantee Ottoman independence, that is Britain, France, Austria, Prussia and Sardinia, presented the government with an identical memorandum, couched in blunt terms, calling 'the careful attention of the Sublime Porte to the political and financial condition of the country'. Whether or not in direct response to this, a new *hat* was issued which laid heavy stress on the urgent necessity of financial reform, although the replacement as Grand Vezir of the reform-minded Âli Pasha by the more conservative Kibrîşli Mehmet Pasha which accompanied this put something of a question mark over its significance as far as western observers were concerned.⁹⁴ However, a new and high-powered seven-man commission was established in order to examine the financial situation of the empire; to draft

any legal changes that might be needed in respect of taxation and financial administration; and to propose whatever other measures were required to restore good order to the functioning of the government. The three Ottomans on the Financial Commission were Âli Pasha, Fuat Pasha, then Foreign Minister, and the Finance Minister. However, the Europeans, who included Herr Lachenbacher and the marquis de Ploëuc, respectively the financial officials provided by the Austrian and French governments, and Mr. Falconnet the Constantinople manager of the Ottoman Bank who represented Britain, had a majority. Much helped by the high standing of its indigenous members, the commission made some progress in the matter of establishing an official budget; produced draft regulations intended to ensure that budgets would be adhered to, and for the establishment of a French style *cour des comptes*; and turned its attention to the collection of the customs revenue. This was useful work, but the Financial Commission was only consultative, and having no executive power was not in fact able to bring about any actual changes. And as the months went by the financial chaos in which the Ottoman state was embroiled continued to deepen, until a chronic sickness had become an acute and potential mortal one.⁹⁵

What finally brought about this change seems to have been, first, a series of unexpected political events necessitating military operations whose cost totally overwhelmed the Treasury, and, second, the nature of the expedients used to bridge the now yawning chasm that had opened between what moneys were available and the expenditure that was being incurred. In 1857–58 there had been trouble with the quasi-independent principality of Montenegro – tiny, but set in its ferocious mountains a tough nut to crack, let alone crush – and connected with this there was a major revolt among the Christians of neighbouring Herzegovina. Eighteen fifty-eight also saw renewed unrest on the island of Crete, which likewise called for the despatch of troops. And at the other end of the empire, in Jiddah, the latent hostility of Muslims towards the presence of infidels in the land of Islam boiled over in a riot in which the consuls of both Britain and France were killed, necessitating a substantial reinforcement of the Ottoman presence in the Hijaz. In the following year, 1859, the Porte faced the real possibility that the Franco-Sardinian-Austrian war in Italy might spread to the Balkans, while in 1860, as events in Italy aroused the expectations of its own minority peoples, there was the further possibility of major risings in Bosnia and Bulgaria. The counter-measures taken, unlike those in Montenegro and Herzegovina, proved to be precautionary only and involved no fighting, but they nevertheless involved the government being called upon, as the British ambassador Bulwer put it, ‘with an empty exchequer to make immense pecuniary sacrifices’. On top of this came the outbreak of a bloody inter-communal civil war in Mount

Lebanon (May–June 1860), followed by the appalling massacre of Christians in Damascus (July 1860), in which as many as 10,000 people may have been killed. This outrage led to a demand for international intervention, and the Porte had to rush troops to Syria to restore order and undertake punitive action before the French expeditionary force could arrive. Nor did 1861 provide any respite, with renewed hostilities in Montenegro and Herzegovina, and the need to guard against the fact that Greece and Serbia were plotting further insurrection inside Ottoman territory and a military alliance to provide it with external support.⁹⁶

Ottoman forces could and did continue to function even though they received little, if any, of the meagre pay due to them for months on end. For their pay to be from four to six months behind was commonplace, and in April 1861 the Ottoman Bank's inspector, Edward Gilbertson, recently returned from Beirut, reported that some of the troops in Syria were thirty-three months in arrears.⁹⁷ But even they had their limits, and meanwhile they and their horses had to be fed, they had to be transported, and kept equipped and supplied with munitions, and for these purposes money had to be found, or if it could not be found it had to be promised. And so short-term debt, much of it incurred irregularly and on a hand-to-mouth basis, accumulated irrevocably. Exactly how much the government owed to its creditors at any particular moment is impossible to tell, since even at the time no one, neither the government itself nor the European experts trying to help it, was really sure. There was no central control over borrowing, and debts were incurred by the various spending departments without any proper record of them being kept. Thus when ministers, such as those of the Civil List, who were responsible for the Sultan's private expenditure, of War or of the Navy, had exhausted the revenues specifically assigned to them, they turned first to the public Treasury, and when that was empty they simply issued the interest-bearing IOUs known as *sergis*, for whatever sums they needed, without ever being called upon to submit proper accounts. Towards the end of 1857, according to Nassau Senior's informant, who was clearly the banker Charles Ede, the floating debt was the equivalent of some LS 17.94 million, which together with the funded foreign debt of LS 8 million made a total of just under LS 26 million/LT 28.6 million. By July 1860 this had increased to at least LS 35 million/LT 38.3 million. Even this latter figure was not in itself an excessive amount, being only about three times the net annual receipts of LT 12.65 million which the state could count on even after the revenue farmers and sundry corrupt officials had taken their cut. However, despite the raising of another overseas loan of a nominal LS 5 million in 1858, specifically intended to reduce that part of the floating debt represented by the *kaime*, and the consolidation of a further LS 2 million worth by the issue of a new type of long-term bonds known as

esham-ı cedid, the floating debt was higher than ever at LS 18.5 million/LT 20.35 million. And it was this, not the size of the debt as a whole that was the problem. 'La dette flottante à courtes échéances résultant d'emprunts usuaires contractés dans les mystères de l'administration sont [sic] toute la crise,' as de Ploeuç and Falconnet put it in their joint note on the work of the Financial Commission in October 1860.⁹⁸ Not only had it been growing rapidly, but it was costing the government a great deal. As its financial situation worsened, so the delays and uncertainties that creditors had to face before they could hope for reimbursement increased, and so real rates of interest were pushed ever higher. Those who were paid for goods or services in *sergis*, which they could turn into ready cash at a *sarrafs*'s only at a heavy discount (if at all), inevitably raised their prices steeply to take account of this. How much they may have increased them is suggested by the fact that early in 1861 *sergis* fetched only between 25 and 50 per cent, according to their prospects of payments.⁹⁹ The *sarrafs* and bankers who were able to provide ready money were only willing – indeed only able, since they in turn raised the funds by borrowing – to do so only at what, from the government's point of view, were ruinously high rates.

Uncertainties about dates of repayment were inevitable, given the confusion with which the state's finances were conducted, but they were aggravated by what Europeans usually interpreted as the government's extreme secretiveness about its affairs, but which by this stage was probably quite as much concealment of its own ignorance of how they actually stood. But the political events of 1858–60 enormously increased these uncertainties, with disorders, rebellions or rumours of rebellions in so many provinces, and conspiracy in the capital itself in September 1859. Finally, the Russian demand for an international inquiry into conditions in the Balkans in the spring of 1860, combined with the widespread belief that rebellion there was imminent, shortly followed by the outbreaks in Syria, seem finally to have destroyed confidence almost completely. By the late summer and early autumn the Galata bankers would make advances to the Porte only at rates equivalent to 35 or 40 per cent a year, and even then only in return for firm appropriations on revenue due to be received within a few months.¹⁰⁰ It was this anticipation of the following year's tax receipts that made the situation so particularly critical. According to Bulwer, LS 6 million out of the floating debt of LS 18 million/LT 19.8 million was in the form of such anticipations. Or, as he put it, this sum was not a debt, but a debt which had already been paid, leaving a vacuum in the Treasury which somehow had to be supplied. 'The government has placed the revenue of the next seven months out of its power. It has made it over for sums received and spent. Thus the whole of the expenses of the state have to be paid for the next seven months, and there is nothing

to pay them.' And beyond that period the revenue was far from being unencumbered, there being charged upon it, so de Ploec told the French ambassador (La Valette), sums '*dont l'importance est complètement en désaccord avec les ressources actuelles du budget*'.¹⁰¹

The problem was that if the Ottoman government honoured its commitments to those entitled to future revenue receipts, it would simply be unable to function. 'You may refuse to pay your creditors and go on,' wrote Bulwer, 'but you cannot refuse to pay the army, navy, and civil functionaries, or the attributes and action of a government cease.' In an Ottoman context that was perhaps not in fact true, but a mutiny or rising in the capital would be a real possibility. 'Constantinople is a city of persons employed in the service of the state, and of these who live by them,' Bulwer had told Russell on a previous occasion. 'It is no exaggeration to say that almost all the capitalists and tradesmen in this city are at this time creditors, directly or indirectly, of the state.' And if tradesmen who had furnished supplies or services did not get paid, they would ultimately be unable to pay the numerous poor people they employed. If any trouble occurred, therefore, it might well get popular support, and no one could forget that there had been a conspiracy against the Sultan the previous autumn. On the other hand, if the government repudiated its obligations to the bankers, it would not only totally destroy its own credit once and for all, it would also precipitate a financial crisis with extensive international ramifications. Most of the money involved had in fact been raised in Paris and London by means of short-dated bills, which were continually circulated, new ones being drawn as the old ones were paid off. If this process were interrupted by a government resumption of the tax receipts it had alienated to the bankers, the results would be not simply bankruptcies in Galata, but the disruption of the Levant trade, and heavy losses for the Bank of France and in the City of London. It was this set of alternative scenarios if nothing were done – possible revolution in Constantinople, which might very well entail the collapse of the empire and the throwing of the Eastern Question wide open, or international financial crisis – that gave urgency to the efforts of both British and French ambassadors to help the Porte extricate itself from its difficulties.¹⁰²

By the middle of 1860 things had reached such a pass that none of the measures of reform which the Financial Commission had been discussing could possibly take effect quickly enough to make any difference, even if the Porte had been willing to adopt them and could somehow have found the means to implement them promptly. In June the Grand Vezir, Kâbrîşî Mehmet, newly back in power, responded to the situation by converting the Financial Commission into a Supreme Council of the Treasury, presided over by his immediate predecessor *Mütercim* Mehmet Rüştü. The new institution

was inaugurated in a ceremony of impressive solemnity, and foreign governments were informed of the extensive powers that were to be accorded to it to meet the crisis. But in fact these powers were not clearly defined and, unlike the commission, the council had a majority of Ottoman members (among whom neither Âli nor Fuat were any longer included), several of whom were men who could easily be over-awed by their ministerial colleagues, thereby depriving it of any real independence. Whether Kibrîslî Mehmet intended it *simply* as a means of inspiring confidence abroad so as to improve his chances of raising another foreign loan, and as a means of postponing rather than hastening real reform, no new measures had emerged from its lengthy discussions by late October when the European members withdrew in disgust.¹⁰³

A long-term loan, properly secured and funded and thus at a much lower rate of interest than had to be paid for the succession of short-term advances negotiated on an *ad hoc* basis, and which could be employed to pay off the anticipations on the revenue, did indeed seem to be the only escape from the crisis. To levy emergency taxation would, in the circumstances, probably do no more than precipitate further provincial revolts. To resort once again to *kaime* would mean that all the expense and effort devoted to their withdrawal in 1858-59 would have been wasted, and the pernicious effects of issuing an inconvertible paper money unbacked by specie would reappear. It would also mean an indefinite postponement of the opening of the National Bank of Turkey which, after long delays, had finally proceeded to a rather uncertain launch on the London Stock Exchange at the beginning of 1860. Indeed, it might well mean the total collapse of the bank scheme, for as the prospects that it might actually be able to commence operations receded so the value of its shares fell, by late August to a 50 per cent discount, provoking some shareholders to press for the concern to be wound up. For the Porte this would mean the end of any prospect of relief that might have been had from the existence of a state bank contracted to make regular advances on the security of the tax revenues passing through its hands at no more than 6 per cent, for if the NBT went into liquidation it would, in the circumstances then prevailing, be impossible to set up any replacement. Finally the government had promised the subscribers to the 1858 loan that it would not issue more *kaime*, and to renege on this so quickly would cause lasting damage to its credit abroad.¹⁰⁴ And certainly it was only abroad that a long-term loan could be raised. It was, however, a question whether, in the midst of such a financial and political crisis, foreign bankers and their clients would be interested in a new Ottoman loan.

On the other hand, an international guarantee such as that given by the governments of Britain and France in 1855, and which had enabled the Ottoman state to raise money abroad on highly advantageous terms on that

occasion,¹⁰⁵ would surely overcome their reluctance. The French ambassador suggested the collective guarantee of the signatory powers of the Peace of Paris, in return for international supervision of Ottoman finances. However, an agreement between the powers on anything to do with the empire was, as usual, a mirage, the more so in this instance as the potential complications in the event of an Ottoman default were so extensive. And failing an international agreement, no one power either wished to shoulder the financial responsibility alone, nor to court the diplomatic furore that would be sure to follow a move so blatantly likely to enhance its political influence at Constantinople at the expense of the others.¹⁰⁶ But in any case the Porte would not agree to foreign supervision. Early in August 1860 the British government informed Âli Pasha that, while it could not offer a guarantee unless there was a general agreement on the matter, if the Porte would unequivocally accept six stated conditions it would be ready to use its influence with 'the great capitalists' to help secure a loan. The conditions included an end to the system of short-term advances; that there should be a special guarantee for the payment of the interest on the debts to be consolidated; that fresh sources of revenue should be found to cover the interest on the loan; and that the exploitation for revenue purposes of forests, mines, public lands and *vakıf* property should be entrusted to a mixed commission of Ottomans and foreigners. Most important, however, were two final conditions which called for a committee of control, including a British and a French member, 'whose powers should be clearly defined, and of a sufficiently extensive character to enable it to discharge the duties which it is called upon to fulfil', and for the establishment of a properly constituted Finance Ministry, staffed by foreign experts.¹⁰⁷

Âli's reply to these conditions was to remark that most of the measures proposed were indeed useful and necessary, but despite the pressing nature of the crisis he would not, indeed he could not, go as far as the British had demanded in the last two items. To have done so would have been to surrender a large part of the sovereignty of the Ottoman state. Instead, he offered to add two European delegates, one appointed by the British government, the other by the French, to the newly created Treasury Council. This, however, was not enough. The British Foreign Secretary Lord Russell saw it as simply one more Ottoman promise of amendment, which on past performance, or lack of it, was likely to remain unfulfilled. Without real reform of the financial system and an end to corruption, a loan would simply be wasted, indeed it would be worse than useless since it would remove the pressure on the Porte to make the necessary changes. The French government took the same view, and so did the Prussian, although the latter showed itself to be much more understanding than the British of why reforms were so difficult for the Ottomans to agree upon and to implement.¹⁰⁸

Neither a guarantee, nor even moral support, for the Porte's quest for a loan was thus forthcoming. However, even without one, negotiations with the bankers of both London and Paris had been going on since the early part of the summer of 1860. In the former city the Ottoman Bank was neither willing nor able to help. It had failed to break into the National Bank consortium; the volume of its business and its profits in 1860 were heavily down on those recorded in the two preceding years; it had been unable to secure payment of interest on or repayment of principal of the moneys it had already advanced to the government; and in consequence of all this its shares were at a considerable discount. As for its rival, the National Bank of Turkey, for reasons we have already seen, it as yet had no real existence.¹⁰⁹ It had not yet attempted to raise its own capital in full, and it could obviously not do anything for the government. In Paris the Rothschilds, Laffittes and no doubt others were unwilling to become involved, but by early July Bischoffheim Goldsmidt had put together a group, in which the *Crédit mobilier* was involved, to raise a loan of Frs 250 million/LT 11 million. In view of the massacres of Christians in Mount Lebanon and Damascus, however, the French government refused to allow the securities to be quoted on the Paris *bourse*.¹¹⁰ By September the increasingly desperate Ottoman ministers had been forced to put back into circulation some of the *kaime* which had so recently been withdrawn, having no other means of providing the Constantinople garrison with rations, and began actually to discuss the prospect of imminent bankruptcy.¹¹¹

Relief came at the end of October with the news that a definitive loan contract had, after all, been signed in Paris. The agreement, however, had not been reached with one of the leading houses of the *haute banque* whose name and contacts would have virtually guaranteed a successful outcome; rather, it was with a financial newcomer with a reputation for adventurous speculations, 'un grand brasseur d'affaires', who stood outside the charmed circle of unimpeachably reputable bankers – Jules Isaac Mirès and his *Caisse générale des chemins de fer*. The amount, moreover, was inadequate and the terms ruinous for the Ottomans. Nominally the loan was for the large sum of Frs 400 million/LT 17.6 million at 6 per cent, but the price at which it was to be taken by the contractors ($53\frac{3}{4}$), the contractors' commission and the enormous expenses they were to be allowed, reduced the sum the government was actually to receive to no more than Frs 164 million and pushed the real rate of interest up to over 14.6 per cent, making it the most expensive long-term loan the Porte was ever to contract. Moreover, Frs 164 million was equivalent to only some LS 6.56 million/LT 7.22 million, and the money was not to be received all at once but by instalments over eighteen months, even though Bulwer thought that at least LS 10 million was needed to give the government a fresh start and that any less 'would be a mere temporary

expedient, and still leave behind it the old method of short term loans at usurious interest'.¹¹²

This was, however, the most that could be obtained, in the rather difficult financial conditions which prevailed in Paris in the latter months of 1860, by a state whose credit had almost completely collapsed. Besides, it was enough to settle the most urgent of the floating debts, the so-called '*créances de Galata*', advances totalling some LT 5.5 million, made by the local bankers at very high rates of interest in return for hypothecation of revenues due no more than a few months ahead, and supported by a circulation of bills on Europe. The balance of the loan was to be used to withdraw outstanding *kaime*, for which it was estimated something less than LT 1 million would be required.¹¹³ In themselves these *kaime*, being so few, were doing little harm, but under the terms agreed with the National Bank of Turkey, the latter would not take up its concession until the last of the paper money had been withdrawn, and it was thus worth giving them a high priority so as to get the national bank into existence at last. And it was to the NBT, embryonic though it was, that Mirès turned in his search for an ally in the City of London. The Bank was to handle the issue of the loan in the latter; was to make the interest payments in both London and Constantinople; was to receive the revenues assigned by the Porte as guarantees for the loan; and was to deal with the *kaime*. Meanwhile it was to proceed immediately to raise the capital it needed to be able to function, initially LS 1 million, and Mirès agreed to take 20 per cent of this.¹¹⁴

The loan was launched in Paris, London and Amsterdam in December 1860, but things did not go well. Mirès had attempted to make too large a financial killing and fixed the price at which it was offered to the public too high at 62½. In the two latter places the issue failed almost completely. On 1 January 1861 Layard told Bulwer that he did not think that the contractors had raised LS 500 among the bona fide public. In Paris, where the small investor, to whom Mirès appealed directly, had been subjected to an intense publicity campaign, the stock sold briskly at first, but demand did not hold up and by the New Year it was clear that the issue would not be fully subscribed. Mirès's Caisse générale had neither the resources of its own, nor the credit, to carry the balance, and the Crédit mobilier refused an appeal for help. The commencement of judicial proceedings against Mirès personally by business enemies, culminating in his arrest on 18 February 1861, completed the wreck of the operation.¹¹⁵

Both for the Ottoman government, and for the circular chain of creditors which led from the Porte, through Galata to the Levant trading houses of Marseille and London, the bankers of Paris and the City, and back to Galata, this was a potential death-knell. Bankruptcies began by mid-January, as soon

as it was clear that the loan had failed. Ede's, which had been involved in the establishment of the Ottoman Bank, and Rodocanachi, the leading figure in the National Bank of Turkey group, both of whom had a footing in Constantinople and London, were among the first to go. 'House after house tumbles down like a pack of cards,' wrote Bulwer excitedly from the Ottoman capital, adding that even Baltazzi, the greatest of the Greek banking houses, seemed to be tottering – and indeed before events had run their course not only Baltazzi but also Psichari, a leading figure in the abortive 1853 Ottoman Bank, had been obliged to close their doors. There were also some important failures in London and Marseille, but a total financial disaster was narrowly averted. The bankruptcy of the Porte in these circumstances threatened such dire and unpredictable political consequences, as well as heavy financial losses in both Britain and France, that despite themselves the governments of both countries felt compelled to make some moves to support Ottoman credit. Official intervention in Paris prevented the bankruptcy of Mirès. The *Crédit industriel et commercial* took over responsibility for the loan, secured permission for the issue to be quoted on the *bourse* (which had been denied to Mirès), and ensured that at least some funds reached the Porte. The French government also sent Baron Doyen, *sous-gouverneur* of the Bank of France, to Constantinople to sort out the many problems which had arisen for the French financial community as a result of this affair, while the British despatched two senior Board of Trade officials, Morgan Foster and Lord Hobart, to report fully on the state of Ottoman finances, and on possible financial reforms, a task which occupied them from the end of May until early December 1861.¹¹⁶

In the meantime the Ottoman government, finding that it was to receive less than LS 1 million from the Mirès loan instead of six times as much,¹¹⁷ when even that amount had been inadequate for its real needs, resorted to the only possible expedient at its disposal to ensure that it could continue to function. In March 1861 it announced its intention to issue *kaime* once more at the rate of up to Ps 30 million a month, 'for the payment of the most urgent expenses of the state'.¹¹⁸ This meant that the Porte had to abandon all hope of the NBT for the foreseeable future, but for the moment that was the least of its worries. As before the *kaime* were inconvertible and their value soon began to depreciate, an effect exaggerated by the fact that the number in circulation was increased by the ease with which they could be manufactured by forgers, some of whom had already been detected within a week of the new issue first appearing.¹¹⁹ Thus, only a matter of months after the withdrawal of most of the previous issue had been completed, thereby alleviating the very same set of evils, the stability of the economic life of the capital and of its economic and financial relationships both with foreign countries and with the

rest of the empire, were once again gravely prejudiced by the printing of a mass of paper money unbacked by specie.¹²⁰ However, this enabled the Porte to struggle on through 1861, albeit with prices in the capital – where *kaime* were rapidly once again becoming the only form of currency in normal use – rising ominously, and the exchange rate against gold falling continuously and unpredictably. Somehow funds were procured to undertake fresh military operations against Montenegro and in Herzegovina. Somehow the revenues which had been alienated in advance to the Galata bankers were reclaimed from them without forcing any more of them into bankruptcy, presumably by a combination of payments out of the loan money, payment in *kaime*, and paying one set of anticipations by raising money on another now that Anglo-French official support had restored some confidence.¹²¹ But there could be little doubt that, financially speaking, the empire was living on borrowed time. The death of Sultan Abdülmecit during the summer caused a temporary lifting of morale among the financial and diplomatic communities, and among reform-minded Ottomans too, as it was felt that a new reign might inaugurate an era in which desperately needed reform would at last get under way. But the optimism did not last long. Abdülaziz began his reign by lavishing money on the armed forces in and around the capital, and by shifting ministers between posts at such a dizzy speed that Edward Gilbertson, now the Ottoman Bank's manager at Constantinople, remarked that 'the first thing one looks for every morning is the list of dismissals and appointments'. None of them could feel confident in their tenure of office so that most inevitably devoted their efforts rather to feathering their own nests as rapidly as possible, and to intrigues to maintain their position, rather than to affairs of state.¹²²

At the same time as these events were unfolding, continuous discussions were going on, among the Ottoman ministers and on the Treasury Commission, which the European members had now rejoined, to try to find a way out of the financial morass into which the Porte had sunk. A number of important decisions had in fact been taken over the months. In July a new mining code had been promulgated which, by encouraging exploitation of the empire's mineral resources might, in time, increase the pitifully small revenue that derived from them. In September 1861 new regulations intended to increase the receipts from stamp duty were issued. And to complement the new set of tariffs, whereby import duties were to be increased from 5 to 8 per cent, which had been agreed in a series of international treaties negotiated during 1860–61, the farming of the customs was ended during the later part of 1861 and replaced by a new system of direct collection.¹²³

These were reasonably uncontroversial measures as far as the Ottomans themselves were concerned, but others which were no less essential were more difficult for them to agree on. Sooner or later a long-term foreign loan,

large enough to convert the bulk of the floating debt into a regularly funded one at a lower rate of interest, would have to be obtained if bankruptcy was to be avoided. But this would only be forthcoming on reasonable terms, and perhaps at all, if sufficient order had been introduced to the government's finances to reassure would-be lenders that solvency-threatening chaos would not simply reassert itself within a year or two; and if the resources to secure and service the loan were available. The first of these conditions required the preparation of detailed budgets, and adherence to the expenditure plans they contained, while the second meant that further new sources of revenue had to be found. To the Europeans, budgets and control of expenditure were no more than normal administrative practice; and they believed that the empire was lightly taxed, that some sections of Ottoman society (notably the city of Constantinople) that escaped taxation almost entirely could easily be brought into the fiscal net, and that the tax base could be widened by appropriate measures to encourage economic activity.¹²⁴ But problems of actual implementation apart, these were highly contentious measures in the Ottoman context. Budgets and their application would obviously offend many powerful vested interests. And as for new taxes, these and even the modification of old ones, were being resisted by the conservative ministers grouped around that bugbear of the European observers, Damat Mehmet Ali, ex-*Serasker* and currently *Kaptan Paşa* or Grand Admiral, who was in the ascendant throughout the autumn of 1861. Their resistance was probably in part because they disliked the prospect of foreign financiers taking control of a larger share of the empire's resources, and partly because, along with the *Şeyhülislâm* whose *fetva*, conveying religious approval, was needed for a new tax, they feared that the next step would be the confiscation of *vakıf* land by the state. And so, unable to agree on measures that might have got to the root of the trouble, and without much understanding of the mechanics of finance and economics, the Ottomans tried to cope with the situation by adopting some of the short-term measures promoted by the abundant crop of 'soi disant possessors of panaceas' which flourished in Galata. But these tended to be at best palliatives and at worst useless, expensive to the government but highly profitable to the bankers who suggested them, such as the clumsy attempts to support the *kaime* by selling gold, and then buying it back again at a higher rate so as to be able to repeat the exercise.¹²⁵

Meanwhile, the government survived mainly by the issue of *kaime* until, early in November, alarmed by the effects of the flood of paper that had been poured forth, it suddenly stopped it, probably to avert a total collapse of its value and of the exchange rate. The result of this was that, with the winter coming on, instead of being paid in depreciating paper, government employees and contractors were paid nothing at all.¹²⁶ Anyway it was too late. Why a

collapse was delayed until nearly mid-December is not clear, nor what set it off, but on 11 December a panic set in on the Galata *bourse* and rapidly spread to the city at large. The value of the *kaime* which had stood at under Ps 200 in mid-November and began the second week in December at Ps 226, stood at Ps 242 on the evening of Tuesday the 10th and then plummeted to Ps 310 in an hour and a half on Wednesday morning, and continued downwards until it was below Ps 350 in Galata and Ps 400 in Stambul. *Sarrafs* stopped dealing and retailers, suddenly uncertain of the value of the medium of exchange, began closing their shops. Crowds formed in the streets and people began panic-buying of bread, paying three or four times the price it had commanded the day before. Wild rumours began to circulate: that the Sultan had been poisoned, that Syria had declared its independence, that the government had repudiated its debts. Clumsily handled, the upshot of these events could have been very serious, perhaps even the revolution that some had predicted, but fortunately the government remained cool. It closed the telegraph offices to prevent trouble from spreading to the provinces, forced the exchange dealers to stay closed, and obliged the bakers to stay open. By the next day the fever had abated, the *kaime* were back at 230, and the immediate danger was over.¹²⁷

In one sense, however, the crisis was fortunately timed, for it happened the very day before the new Grand Vezir, Fuat Pasha, was expected to arrive in Constantinople. Fuat, several times Foreign Minister, able, energetic and a convinced reformer, was coming from Syria where he had been despatched to settle affairs after the bloodshed of the previous summer. In the three or so weeks that elapsed between his appointment and his return, Gilbertson at the Ottoman Bank, increasingly depressed at the worsening political and financial chaos, came to regard him as the last hope. Of all the Sultan's ministers he was the one, Gilbertson thought, whose ideas most nearly amounted to notions of sound finance. And perhaps he *was* the last hope. The panic of 11 December had lasted only for twenty-four hours, but next time might very well be different, especially if the plan of extending a new system of paper currency to the provinces (where the *kaime* had not previously circulated) was implemented in March 1862 as planned. The public, by which he presumably meant all those in Constantinople who depended directly or indirectly on the government, were, Gilbertson felt, beginning to think that the Porte could not and would not do anything, and after a winter in which payments to soldiers, civilian employees and supplies had dried up altogether, even the legendary Ottoman patience might well be exhausted.¹²⁸ Grave though the state of affairs was, therefore, Fuat at least had the advantage of coming to power in circumstances which even the conservatives could not but admit were desperate.

5. Fuat Pasha and the Founding of the BIO

Once installed as Grand Vezir, Fuat's first problem was to overcome the opposition of those in the Council of Ministers who still looked to an unrestricted issue of paper money as the solution to the government's difficulties. Gilbertson was no doubt right when he asserted that Fuat's colleagues simply did not understand finance, and were as well fitted to arrive at the right decisions as he was to give an exegesis of the Qur'an. Their main motive, however, was presumably to try to keep the empire from further dependence on foreign financiers and foreign loans which was certainly the direction in which Fuat's policies led, and which they rightly believed would ultimately compromise national independence. However, their solution could not possibly have worked,¹²⁹ and before the end of January Fuat had won the battle and secured a *hat* uniting the Finance Ministry to the Grand Vezirate, thereby at least temporarily solving the problem caused by the fact that the Minister of Finance had tended to be little more than a government paymaster issuing money on demand. The prospects of actually implementing the financial programme that was being prepared were thus greatly improved.¹³⁰

Meanwhile, negotiations were indeed in train for a loan specifically for the twin purposes of getting rid of the *kaime* and reducing the amount of the floating debt, the balance of which was to be consolidated and properly funded. The representatives of the London bankers Devaux were already in Constantinople, having scented the fact that the Porte would obviously soon have to borrow abroad once more. Here they joined forces with the Ottoman Bank, and quickly reached agreement with Fuat. The latter was not only acting with a speed and decisiveness most unusual in an Ottoman minister, but he was also offering sound guarantees that the loan money would be applied to the stated purpose and not frittered away on current expenditure, and this added considerably to the lenders' security. 'At last I really think we are on the road to a radical change in the financial system of this country,' Gilbertson told Layard on 31 January, adding that as the details of Fuat's intentions emerged he experienced 'a feverish excitement and anxiety like what I should have felt had it been a personal matter'.¹³¹ Besides, conditions on the international financial markets were much more favourable by early 1862 than they had been for two or three years. The *ferman* authorizing the loan was signed on 10 February, and when it was issued in London a few weeks later it was subscribed many times over.¹³² However, the success of the loan also owed a good deal to the anxiety of the British ministry to see the subscription succeed because of the importance in foreign policy terms of the re-establishment of financial stability in Constantinople, and they therefore made a number of pronouncements in its support. This in turn enabled the

promoters to claim in their publicity material that the new loan was 'under the direct cognizance and favour of the British government', which investors unsurprisingly took to be tantamount to an informal guarantee. It was certainly not intended to be any such thing but the government in London was never able entirely to shrug off claims that it had some moral responsibility in the matter, especially as later in the year it despatched Lord Hobart on a second mission to the Ottoman capital specifically to help ensure that the proceeds of the loan were used in accordance with the promises made by the Porte.¹³³

Secured on certain of the indirect taxes and offered at 68, the nominal LS 8 million loan brought in, after the deduction of commission and expenses, something over LS 5 million/LT 5.5 million in specie for the Ottoman Treasury. But even together with nearly LT 2 million expected to become available from an internal forced loan, the total amount available was very much less than the LT 10 million which would have been required to redeem the Ps 1,000 million worth of *kaime* in circulation at par, let alone to discharge the LT 8.4 million at which the floating debt was then estimated to stand, very optimistically as it turned out, since the true figure was nearer LT 12 million. However, as most of the *kaime* had been issued at rates of 175–180 to the *livre turque*, there was no moral basis for the clamour of the Galata financial fraternity that payment should be at 100. In order to decide how to proceed, Fuat had established a committee, presided over by himself, and including in its membership de Ploëuc and Lachenbacher, who it will be remembered were the French and Austrian financial advisers in the service of the Porte, Gilbertson of the Ottoman Bank, and Lord Hobart. The solution they adopted was that holders of *kaime* were to receive 40 per cent of the face value in freshly minted gold coin, and the remaining 60 per cent in a new 6 per cent stock similar to the *esham-ı cedid* of 1859, which was to be issued at par.¹³⁴ The scheme necessarily took several months to put into effect, and Gilbertson had some anxious moments that despite everything the money was being diverted to finance military expenditure in Montenegro and before Belgrade, and about the composition of the *conseil de surveillance* set up to manage the withdrawal operation.

However, in the end everything proceeded without a hitch. By mid-September nearly LT 4 million had been applied, Ps 998,788,152 of *kaime* had been withdrawn and cancelled, and the few which had not been brought in had ceased to be legal tender. At a special ceremony held to mark the success of the operation, an exultant Fuat congratulated the Sultan on having peacefully delivered his country '*d'un fleau aussi grand que celui des Janissaries dont son père n'avait pu affranchis l'Empire qu'en versant des flots de sang*'. Later he announced the striking of a special commemorative medal to be paid for from the sale of the waste paper represented by the huge piles of now

worthless *kaime*. It was true that some LT 5.83 million of old floating debts remained for which no cash could be found and that deficits accruing during 1862, largely as a result of the military operations just referred to, brought the figure back up to nearly LT 8.25 million, so that it was clear that yet another loan would soon be required.¹³⁵ But for the moment the important thing was that the *kaime* had been extinguished entirely. Had the withdrawal been anything less than complete, then given the Ottoman political system, a new set of ministers would probably sooner or later have increased the volume in circulation again, whether surreptitiously or otherwise, so that everything would have been done in vain.¹³⁶ As it was, Constantinople now had a sounder currency than at any time since the early 1850s, although the problem of the *beşliks* remained to be dealt with.¹³⁷ Apart from the obvious benefits of this for economic life in general, the consequent stabilization of prices would directly help to narrow the yawning gap between the government's receipts and its expenditure. But it also created a context in which the establishment of a national bank to provide the financial services that the Ottoman Empire so badly needed if it was to function as a modern nineteenth-century state, once again became feasible.

There was indeed a wide range of other financial measures, all of which had been urged on the Porte by its European financial advisers and by friendly ambassadors for years, which Fuat attempted to put into effect during the course of 1862. The preparation of a budget for the year ahead, the introduction of effective systems of departmental accounting, reductions in expenditure, a final end to tax farming, new taxes to increase revenue, a road-building programme to encourage economic activity and thus widen the tax base, were all part of his programme. But for all the Grand Vezir's energy he could make little progress with the implementation of any save the first. 'The reforms promised and projected have in fact remained a dead letter ... a little paint has been put over the bare patches, and that is all, saving the withdrawal of the *kaime*,' was Gilbertson's verdict towards the end of the year, and he quoted Fuat as blaming this primarily on the impossibility of finding men to carry out the measures envisaged. And as for the gross and rampant financial corruption, involvement in it reached so high in ministerial circles, that even Fuat could not push the investigations to a conclusion.¹³⁸ But the bank was one measure which did not depend upon the existence of honest and efficient subordinates within the indigenous bureaucratic hierarchy. If Fuat's first great achievement at this time was his successful withdrawal of the *kaime*, his second was to set in train the negotiations which did at last produce a viable national bank, although he was temporarily no longer at the head of affairs when the concern came into existence.

The institution of a national bank had now in truth become an urgent

necessity because a satisfactory solution to the problem of short-term credit was essential for the success of any kind of financial reform. Short-term credit was essential to the government, and would remain so even if the budget were perfectly balanced, because so much of the revenue derived directly from agricultural production that receipts were very unevenly distributed through the year, while expenditures had to be incurred at all seasons. In the past the gap had been bridged by making payments in *kaime*; by borrowing from local financiers at extremely high rates of interest; or from the advance payments by revenue farmers, which meant sacrificing a substantial proportion of the tax revenue in question in order to provide the latter with their profits.¹³⁹ Of these three methods, the use of *kaime* was no longer available, and Fuat was trying hard to avoid resorting to either of the others and would have little chance of bringing receipts and expenditure into line with each other unless he was successful. By October 1862, however, blown off course in part by unexpected military expenditure, in part by the sheer difficulty of securing any significant economies in ordinary expenditure, he had no choice but to resort again to what the French ambassador, de Moustier, called '*le vieil et désastreux expédient des emprunts sur place*'. Camondo, Zarifi and Baltazzi advanced LT 400,000 for six months at 16 per cent, and de Moustier thought it probable that '*les prêteurs trouvent en outre dans d'autres stipulations secrètes quelque avantage ignoré au public*'. But a national bank was critical in other ways than the provision of financial accommodation at a less usurious rate of interest than Galata exacted. The acquisition of accurate information about receipts and expenditure, which during their investigations in 1861 Foster and Hobart had found that the Porte had simply no means of obtaining, was clearly a *sine qua non* of any real progress on the financial front. This, a properly conducted national bank which handled all government moneys would be able to supply, and it would also provide the means whereby an effective central control could be maintained over departmental finances, which was likewise essential if spending was to be kept within limits. 'While in other countries such a bank is a convenience,' proclaimed Sir William Clay, a director and future chairman of the Ottoman Bank, 'in Turkey it is a necessity.'¹⁴⁰

By the time that Fuat came to power, the option of reviving the National Bank of Turkey was no longer open. It will be remembered that the latter's concession had provided that it should not commence operations until after the *kaime* had been withdrawn, and certainly its monopoly of the issue of notes, which apparently it regarded as the most valuable element of its privileges, was meaningless as long as other forms of paper money remained in existence. But the government's continuing financial embarrassments had made it impossible for this condition to be realized in either 1859 or 1860. The

bank's directors had successfully resisted pressure from within the body of their shareholders to have the undertaking wound up in the early autumn of 1860, and later that year struck a bargain with Mirès which briefly made their obstinacy seem justified. But the fiasco which engulfed the Mirès loan, and forced the Ottoman government to resort once more to the printing presses in March 1861, dashed these hopes.¹⁴¹ The directors therefore faced the alternatives of either going to court against the Porte to try to secure damages for non-fulfilment of contract, or of entering into negotiations with it for a revised concession. They decided on the latter course and a representative was duly sent out to Constantinople. Negotiations were prolonged, as any with the Porte almost invariably were, but by September some kind of agreement seems to have been reached: a new set of statutes was agreed, operations were to commence within six months on the basis of half its capital of LS 1 million being paid up, and the NBT was to handle the withdrawal of the *kaime*. Meanwhile, an opening in Constantinople presumably not yet being considered feasible, an effort was made to set up a branch in Zmir even though no head office yet existed. It all came to nothing, however, when the Ottomans insisted on last minute modifications, the London directors refused to accept them, repudiated the agreement entirely, and in the middle of October 1861 decided to wind up the undertaking. Why they did so is not entirely clear. It may have been that they were pinning their hopes on a merger, or at least a close understanding, with the Ottoman Bank, which the British ambassador, Bulwer, had repeatedly tried to bring about, and that when this finally fell through they concluded that their chances of raising capital on the Stock Exchange were too poor for it to be worth proceeding. But whatever the truth of this, with their decision the third attempt to establish a national bank had finally collapsed.¹⁴²

The formation of a new concern was already under discussion as soon as the success of the loan was assured, that is by the spring of 1862. Fuat's original idea was seemingly to get a national bank into existence at once, before the liquidation of the *kaime*. It would then be able to help with the withdrawal, and its notes would be available to make good any shortage of circulating medium that might arise from the replacement of a large volume of paper by a much smaller one of sound coin. At first ambassador Bulwer encouraged this idea, hoping thereby to avoid a repetition of the events of 1858–60 when the provision that the NBT was not to come into existence until after the withdrawal of the *kaime* had caused difficulties, fatal as it had turned out, both for the withdrawal and the formation of the bank. But the Foreign Office overruled him and exerted considerable pressure on the Ottomans not to rush the issue. Its main motive seems to have been an apparently well founded fear that a hastily concocted scheme would inevitably be based

on a Galata consortium – ‘persons who have in view their own interests rather than those of the Porte’ – and involve a diversion of some of the proceeds of the loan away from its proper purpose in order to provide part of the necessary capital. In the event Fuat agreed to defer any decision until Lord Hobart arrived in early May, and then accepted his advice to postpone the question until after the withdrawal operation had been completed.¹⁴³

The Ottoman Bank directors, however, saw no reason to wait until then before staking their claim since the moment they had been waiting for seemed at last to have arrived. The credit of the Turkish government had been immeasurably improved by the resounding success of the 1862 loan, and could be transformed if the withdrawal was also a success: this, and the prospect of a stable currency, rendered the national concession attractive to non-speculative financiers for the first time since the winter of 1856–57. The bank’s own relations with the Porte were once again good, after a period of considerable tension consequent upon the difficulties it had encountered in securing repayment of advances made in 1859 and before, and during which it had as far as possible avoided government business. As early as February 1860 the acting manager at Constantinople was soliciting the British ambassador’s intervention with Fuat, then Foreign Minister, about the money owed since direct approaches to the Finance Minister had had no result. By the end of the year the situation was unchanged and, according to Layard, the directors had become utterly exasperated by the Porte’s evasions. Certainly in February 1861 one of them, Sir William Clay, sent warnings to the Ottoman government that if the default had to be made public at the forthcoming annual general meeting, their credit would be ‘utterly ruined and all chance of obtaining any financial assistance in Europe finally at an end’. His remonstrations seem to have had an effect for although in September the outstanding debt was still LS 152,458, a satisfactory arrangement for its repayment had at last been arrived at. By the beginning of 1862 the estrangement was finally over, for the Ottoman Bank was willing to make fresh advances once more, and what remained of the old debt was finally discharged out of the proceeds of the 1862 loan in March; indeed, that this should be done had been a *sine qua non* of the bank’s involvement in the affair. Besides, the bank’s association with the firm of Devaux in the issue of the loan inevitably meant a closer and more friendly relationship with the Porte than in the recent past, and Gilbertson’s inclusion in the commissions to consider the application of the loan, to supervise the withdrawal of the *kaime*, and (with another of his colleagues) to oversee the transmission to England of the funds devoted to servicing it, cemented this closeness.¹⁴⁴

Then in May 1862 the directors decided to take advantage of an increasing abundance of money on the London Stock Exchange to increase the bank’s

capital. A further 50,000 LS 10 shares were created, and although holders were initially called upon to pay only LS 2 per share, thus carrying the concern's paid-up capital to no more than LS 550,000, the board envisaged further calls in the fairly near future. And while in part this would no doubt be used to finance the increase in commercial business that a more stable currency, and the opening of a new branch at Bucharest, would certainly bring, no one questioned that the main purpose was to strengthen the directors' hands should the opportunity to secure the national concession arise. Finally, any possible competition from Galata was, as we have just seen, at least temporarily neutralized by British diplomatic intervention, and there were for the moment no other declared rivals in the field. But such rivals were bound soon to appear, now that the Porte's finances were on a more even keel, and should one of them secure the national concession there could be no doubt that the Ottoman Bank's prospects would be damaged 'precisely in the degree to which it was well conducted'. All the financial operations of the government, from which the bank was once again beginning to draw useful profits, would be lost; there would be a dangerous rival, armed with the prestige belonging to a state bank, for private business; and in the matter of provincial branches, those of such a rival would have the great advantage of receiving local tax revenues. In Sir William Clay's words, as long as this possibility remained, 'there impended a cloud not slightly menacing' over the prospects of the Ottoman Bank. At the beginning of June 1862, therefore, we find Gilbertson handing to Fuat a set of proposals whereby the latter would itself assume the role of the government's banker.¹⁴⁵

Serious negotiations, however, had to await the successful completion of the *kaime* operation, but once that had been achieved, the race was on in earnest, with a crowd of competitors reminiscent of 1856. In addition to the Ottoman Bank, Devaux of London, the primary contractor for the March loan, was also interested and had some moral claim to special consideration in view of its services in the matter; so was Charles Laffitte of Paris. So also was one of the Oppenheim firms, probably the London house since it had come into possession of the Revelachi-Rodocanachi concession of 1858 (upon which the NBT had been based) and which might still be regarded as remaining legally valid, and it was acting in association with Frühling and Goschen of London, as well as with Erlanger of Frankfurt. It soon appeared, however, that Devaux was not concerned to press its claim very far, and although Rodocanachi himself and Frühling and Goschen proved to be more determined, Oppenheim seemed to be making use of a somewhat questionable concession in order to be bought off. According to de Moustier, they wanted LS 40,000. Both the Ottoman Bank and Laffitte, however, were serious candidates. The former was unquestionably the front-runner, but the latter

appeared in person in Constantinople in late October and submitted proposals for a concern with a capital of Frs 100 million. Unfortunately for him, however, he could stay for only a few days and left behind no one of sufficient weight to sustain his interests, thereby dooming a bid which had initially been well received.

As for the Ottoman Bank, it had been made clear almost from the start that it could not expect to secure the concession on an exclusive basis. Its initial refusal to consider admitting any co-participants had thus quickly to be modified, and indeed it came to appreciate that by internationalizing its undertaking it would better be able to resist political entanglements and avoid provoking the hostility of both the French government and French finance. Alerted to what was going by the marquis de Ploëuc, the Porte's French financial adviser, the French ambassador was, as in 1856, keeping a close watch on developments. The scope of the intended concession was even wider than in the past, and if granted to British financiers alone would, as he saw it, involve a virtual surrender of Ottoman independence to Britain which would, of course, be seriously prejudicial to the interests of France. The Quai d'Orsay responded to the alarm bells he sounded, but considered that it was so evidently in the interests of the Porte to ensure that its state bank had an international character that there was no real danger. Nevertheless, de Moustier was instructed, '*sans engager aucune lutte d'influence avec M. l'Ambassadeur d'Angleterre*', to keep the dangers of granting an exclusive concession firmly before the eyes of the Ottoman ministers. In fact, as the officials in Paris had concluded, the latter were as anxious as they had been six years earlier to secure a combination which would ensure access to money markets other than London, while simultaneously avoiding the obvious political pitfalls of a national bank that was either purely English or purely French. And it was not just an international body of shareholders that they were after, but a fully international national bank. As Fuat told de Moustier early in October, echoing the sentiments he had expressed six years earlier, '*ce n'est pas seulement les capitaux anglais et français que nous voudrions fusionner, c'est encore la direction que nous essaierions de rendre à la fois anglaise et française*'. And on another occasion he emphasized the same point with a characteristic *bon mot*: '*Je voudrais que chaque pièce d'or qui nous arrivera d'Europe fût frappé d'un côté à l'effigie de l'Empereur et de l'autre à celle de la Reine*'.¹⁴⁶

In these circumstances it clearly behoved the Ottoman Bank to find French allies. The directors were not very enthusiastic about Laffitte, although Fuat wanted to see the two coming together, for they did not believe that such an association would improve their position in the money market.¹⁴⁷ But meanwhile the *Crédit mobilier*, which had made an unsuccessful effort to secure entry to the world of Ottoman finance with the offer of a loan of LS 10

million in February 1862, had also decided to enter the fray. With money more abundant, interest rates lower, and share prices higher than they had been for a number of years past, this concern was trying to recapture the momentum it had lost since the later 1850s. It was therefore looking for new fields in which to operate, and the promotion of banks in Turin, Amsterdam, London and Vienna were already, or soon would be, under consideration; the *Credito Mobiliare Italiano*, the *Crédit néerlandais* and the *International Financial Society*, in all of which it played a large role, all came into existence during the first half of 1863, and the *Boden Creditanstalt* was not far behind. Furthermore, the *Crédit mobilier* was making a concerted effort to secure a large share in financing the expansion of the booming port city of Marseille, while the Pereires also dreamed of extending the network of railways they controlled in Austria southwards through the Balkans. A bank in Constantinople, especially if branches could be opened elsewhere in the empire, fitted naturally into this pattern of activity, for Marseille was the port for most of France's trade with the Levant, while the natural terminus for any Balkan railway was the Ottoman capital, and it was there that the concession for building most of its length would have to be sought.¹⁴⁸ The Spanish *Crédit mobilier*, to all intents and purposes a subsidiary of the Paris concern, was also involved in the bid for the national concession, and the latter as usual carried with it a number of *haute banque* firms, several of which, including Fould, Hottinguer and Seillière, had also been involved in the ill-fated attempt to secure it in 1856, while others, notably Pillet-Will and Stern, had not.¹⁴⁹

The *Crédit mobilier* group were formidable rivals and it seems that as soon as the Ottoman Bank got wind of their renewed interest in the national concession, its board proposed a joint enterprise to the French financiers. By early November 1862 one of the most active directors, Lauchlan McKintosh Rate, had been despatched to Paris, and by the middle of the month an agreement had been reached.¹⁵⁰ The main problem was how to reconcile the Frenchmen's insistence on complete equality within the proposed enterprise, with the fact that the Ottoman Bank was actually in the process of calling up additional capital so as to increase the total (initially) from LS 500,000 to LS 550,000, without saddling the new concern with an unnecessarily large capitalization. The compromise arrived at was that the new bank should issue 135,000 shares of LS 20 each, upon which LS 10 would be called up, making a capital of LS 1,350,000 (Frs 16,875,000). Of these, 80,000 shares, equivalent to LS 800,000 would be allocated to the Ottoman Bank, and 50,000 to the French group. The balance of 5,000 were reserved for participants from Constantinople, presumably mainly as a means of rewarding the Ottoman Bank's local collaborators and actively involving government ministers, since the amount was clearly too small to involve Galata in a significant way, as had

been intended in some of the earlier schemes. If and when additional capital was required, however, it was decided that it should be allocated between the two groups in such a way as to bring about equality between them. On the board of directors, or *conseil d'administration* as it was referred to in the French business terminology invariably used in Constantinople, there was, however, to be complete equality from the start. The two elements would each have ten seats, forming respectively a London and a Paris committee, with a smaller group of directors or *administrateurs* chosen equally from each to undertake the actual formation of the new bank and thereafter to supervise its operations. Finally, once the new concern had been successfully established it was agreed that the old Ottoman Bank would transfer to it its entire organization, clientele and business, and cease to exist.¹⁵¹

The next step was to send to the Ottoman government a set of draft statutes, indicating the extent of the concession sought and how it would be operated. This was in Fuat's hands by the beginning of December 1862. 'At last the Turks seem to have found a combination which is likely to establish a really sound National Bank,' wrote Layard to Bulwer, and certainly this time the prospects appeared favourable. Sir William Clay, now chairman of the Ottoman Bank, sought and was granted an interview with Earl Russell, as a result of which the Constantinople *chargé d'affaires*, Erskine, was instructed to give his full support to the project and to co-operate with his French counterpart, who in due course received similar instructions. There were thus no diplomatic obstacles. Fuat was in earnest; unlike most Ottoman statesmen he was not inclined to dilatoriness; and he had enlisted the help of the two British and French financial experts then in Constantinople, Morgan Foster and the marquis de Ploëuc, to act as honest brokers.¹⁵² Besides, Laffitte having squandered his opportunity, the Porte resolutely determined not to recognize the Revelachi concession as still valid,¹⁵³ and with Galata, for whatever reason, still lying low, there appeared to be no serious rival in sight. And finally, conditions on the money market were now such that there would be no problems whatsoever in securing subscriptions for any serious undertaking.

Meanwhile, three French negotiators had set off for Constantinople by ship. On arrival they joined forces with the Ottoman Bank's two senior Constantinople managers, Edward Gilbertson and John Stewart, and together they began discussions with Fuat at the Porte. These proved to be both difficult and time-consuming. The slow progress was in part due to the Ottoman style of negotiating, and partly because even though all parties were anxious to reach an agreement there were serious obstacles in the way of doing so. In the last resort these arose from differing conceptions of the part the national bank was to play in government finance. As Gilbertson put it, 'the main object we have in view [is] that of laying the foundations of a better

system of Treasury accounts and operations' because, he might have added, more reliable profits were to be had that way. But the Ottomans – probably not Fuat himself but almost certainly most of his colleagues – saw it rather as a milch cow which would make disagreeable reforms in their financial practices unnecessary. 'I know these people so well,' Gilbertson continued, 'that I am convinced it will be essential to guard the Bank from becoming, what I am certain they expect it to be, an institution to which they can always apply for money.' And the marquis de Ploëuc agreed with him. '*Les Turcs*', he wrote, '*aimeraient à avoir le crédit et l'argent d'Europe entre leurs mains pour en faire à leur usage,*' but unless this could be prevented the entire national bank project would inevitably fail.¹⁵⁴

The critical questions in the negotiations, therefore, were those which related to control, and the protection of the bank's capital from possible depredations at the hands of some unscrupulous minister. Two particular areas of disagreement which related directly to these matters were whether its headquarters was to be in Constantinople or in the West, and the nationality and status of the *directeur général*. 'As a State Bank it should have as much as possible an external Turkish character,' mused Gilbertson, 'but with as little as possible of Turkish elements in its system and machinery, two requirements extremely difficult to reconcile.' The first of the two issues was more susceptible to compromise. Provided that the 'apparent and official' headquarters was in the Ottoman capital city, Fuat indicated that he would not inquire too closely how far the committees in London and Paris were the real managers of the concern. The second, however, threatened to be a real stumbling block, with Fuat wanting the *directeur général* to be an Ottoman with the rank of Pasha, and repeatedly citing the terms of the Revelachi concession which left to the Porte the nomination not only of the governor but also of two sub-governors, and requiring that two-thirds of the twenty-four directors be resident in Constantinople. But the bankers pointed out that, flattering though the terms of this concession had been to Ottoman pride, it had remained a dead letter, in large part because these very provisions had frightened off European investors. They were insistent that the *directeur général* must be a European,¹⁵⁵ appointed and subject to dismissal by the London and Paris Committees, and they argued that to insist on a majority of *administrateurs* living in Constantinople was in practice to ensure that the concern would fall into the hands of the local financiers, from whose clutches the proposed Anglo-French bank was intended to rescue the Porte. The most that the European delegates would concede, therefore, was an imperial commissioner to ensure that the statutes of the bank were respected and to verify the government accounts held by it. A related issue was whether, in possible disputes with either the government or private individuals, the bank would be

subject to the Ottoman commercial tribunals or whether, as the European negotiators wanted (knowing that ministers could not possibly accept that their relations with their state bank should come under the jurisdiction of the mixed tribunals), a special *ad hoc* tribunal should be set up specifically for bank affairs.¹⁵⁶

Good progress was, however, being made on these and other questions, when a sudden ministerial crisis at the turn of the year brought discussions to a halt and threatened to wreck everything. Sultan Abdülaziz's erratic behaviour had already been giving both his own ministers and the foreign diplomatic community cause for concern for several months. He was becoming recklessly extravagant and subject to fits of rage. He was also listening increasingly to the extreme reactionaries in his entourage, and beginning to show growing resentment towards the reformers currently in office, and indeed to the whole concept of reform. By the New Year of 1863 the position of the leading figures in the government, including both Fuat and Âli, had become intolerable and they tendered their resignations. It was widely believed that the Sultan wanted as Grand Vezir his brother-in-law Sait Pasha, who had for many years lived with a community of whirling dervishes and was described by de Moustier as '*un personnage fort exentrique*', and by the British *chargé d'affaires* as 'an ignorant fanatic of the old school'. As for those spoken of as his probable associates, they were '*ceux qui joignent à plus grande incapacité les idées les plus retrogrades*'. With such a ministry, and with the Sultan personally '*en pleine réaction contre les plans financières de Fuad*', there would be no hope of the bank. The French negotiators began to make preparations to leave, but Sait, who was perhaps not as mad as the Europeans thought, refused to accept office, and Abdülaziz seems to have been sobered by the total *débâcle*, political as well as financial, that faced him. His fit of incipient insanity passed and within a fortnight the old ministry had been reconstructed on a slightly different basis. Kâmil was now Grand Vezir, Mustafa Fazıl (brother of Ismail, the Viceroy of Egypt) Minister of Finance and Fuat President of the Council, and negotiations with the bankers had been resumed by 15 January.¹⁵⁷ The episode had served a warning to the would-be concessionaires of just how unstable the Ottoman political system was, and of how crises which would inevitably affect a state or national bank deeply, could arise with very little warning. Nevertheless, in this instance no harm had been done. Once negotiations were resumed, with Fuat continuing to orchestrate them behind the scenes although they were now ostensibly being conducted by Mustafa Fazıl, they concentrated on the all-important question of control. The problem had distilled itself into a question of how to reconcile the absolute insistence of the bankers that this must lie unequivocally with them, and the need to satisfy the *amour propre* of the Ottoman ministers and

the sensitivities of Ottoman public opinion (such as it was) that their national bank should not simply be a foreign bank with one branch in Constantinople and a few more in the provinces, which was the case with the existing Ottoman Bank. At one time it seemed as though the impossibility of reconciling these conflicting requirements would lead to the collapse of the discussions. Eventually, however, the British financial expert Morgan Foster,¹⁵⁸ acting as honest broker, was able to produce a compromise which satisfied everyone,¹⁵⁹ after which matters were rapidly concluded. By the end of January the agreed terms had passed the Council of Ministers and, despite last-ditch opposition by the *Şeyhülislâm*, had received the sanction of the now passive Sultan.¹⁶⁰ The concession was dated 4 February 1863, and on 1 June the new Imperial Ottoman Bank or – as it will be called throughout this book – La Banque impériale ottomane (BIO), commenced operations.

The BIO was the fourth national bank for which the Porte had granted a concession since 1853. The first had been scuppered by the coming of the Crimean War. The second had failed partly because so much time had been wasted in negotiations that by the time they had been completed financial conditions had changed radically for the worse, and partly because by demanding terms that were too hard Reşit landed himself with the weakest of the four groups competing for the concession. As for the third, quite apart from the doubtful reputation of the consortium involved, and continuing difficulties in the international money markets, the progressive deterioration in the financial condition of the Ottoman government created a fatal dilemma: it was impossible to establish a state bank until the internal situation improved, yet it was impossible to improve the internal situation until reforms, of which the bank was one of the most essential, had been implemented. It was only the adventitious combination of a marked amelioration in the money markets, and the coming to power of Fuat, which enabled the Porte to break out of this trap.

Unlike its predecessors, the newly established BIO was to prove a resounding success. So much so, indeed, that over the half century that followed it was to develop not only into an integral part of the Ottoman state apparatus, but also into one of the great financial institutions of Europe. But so triumphant a future was by no means taken for granted by those who had played the leading roles in its foundation. The French financial adviser to the Porte, the marquis de Ploëuc, who had accepted appointment as the new bank's first *directeur général* was extremely pessimistic about the conduct of Ottoman policy. He was therefore certain that it must be constantly on its guard not to give away too much to the Porte and that those responsible for its affairs must be ready to stand up to a government '*capable de bien des choses, mais incapable de chercher sa sécurité dans l'ordre et la probité*'.¹⁶¹ Likewise Edward Gilbertson,

who had also played a prominent part in the negotiations which were completed in January 1863, was already so disillusioned with the Porte's lack of progress towards financial reform, even when Fuat was at the helm, that he was extremely sceptical about what the bank would be able to achieve. 'Although two or three men can comprehend the use of a state bank,' he told Layard, 'the bulk of the ministers and officials are opposed to applying such an institution to its real use ... I have very small hopes as to the advantage the financial system will receive from the establishment of the Bank.' As for the additional profits to be gained for existing shareholders by involvement in the new concern, he likewise expected little and saw the main advantage in the protection against the establishment of a powerful rival which it provided.¹⁶² In the event Gilbertson was wrong about the profits, which were to be substantial, but he was at least half right about the attitude of the Ottoman ministers.

6. The BIO – Functions and Organization

Under the convention of 4 February 1863 the Anglo-French concessionaires were accorded the privilege of establishing a state bank in the Ottoman Empire, which was to bear the name of *La Banque impériale ottomane*. In deference, as we have seen, to the touchy national pride of the Sultan's ministers, the seat of the Bank was declared to be in Constantinople, and it was to operate under the high protection of the Sultan, and the surveillance of his government. Moreover, it was to be legally an Ottoman concern, despite the fact its promoters, all of its senior managers and most of its shareholders were foreign, and it was specifically stated that the government's surveillance was not only to ensure that the principles of the concession were maintained but also to make sure that in all respects the new concern operated in accordance with Ottoman law. The legitimate concern of the Porte to prevent outside interference between itself and this potentially important adjunct to the machinery of its government meant that there could be no question of the BIO enjoying capitulatory status.¹⁶³ And the point was underscored by a further proviso that any dispute between the Bank and the government over the interpretation of the statutes was to be resolved by arbitration, while any legal proceedings involving third parties were to be heard before Ottoman courts.¹⁶⁴

If the subjection of the Bank to the Ottoman legal system was made unequivocal, so was its independence of the Porte's executive arm. The extent to which those appointed by the latter should be involved in its management had been a major issue in the initial negotiations, but since it was necessary that any part they might play should be confined to the narrowest possible

limits if the BIO was to command confidence in Europe, it was not one upon which the representatives of the Ottoman Bank and the *Crédit mobilier* had been willing to compromise. It could even be said, and quite reasonably, that in anything other than the very short run, the Bank could be of service to the state only if it was entirely independent of the state.¹⁶⁵ In the end, therefore, the Porte had been obliged to accept a role for its nominees that would be little more than cosmetic, maintaining, which was important for reasons of internal politics, the *appearance* of an official Ottoman element in the hierarchy of the country's state bank, but little more. Certainly, this element was to take no part in the actual running of the Bank. The appointment of a *nazır*, or Imperial High Commissioner, to ensure that the statutes were properly adhered to, and a *muhasebeci*, or inspector, to supervise the financial operations of the Treasury with the Bank, were both provided for, but real power in the Bank's affairs was to lie with the committee to be drawn from among the London and Paris founders, and locally at Constantinople with whomever this committee chose to appoint.¹⁶⁶

Of the functions or privileges bestowed on the BIO as state bank, the one of which the concessionaires had the highest hopes as a source of profit, was the exclusive privilege of issuing notes. Capital, as we have already seen, commanded a high price in the Levant, but once a circulation of notes had been established, the Bank would in effect have obtained an interest-free loan from the public of the difference between the amount of the circulation and the specie that had to be held in reserve to back it. And this 'loan' would then be available to earn a profit by being employed in other aspects of the BIO's business. In the event, however, it proved much more difficult than had been expected to get the notes into use, so that it was not until the early 1870s that this was satisfactorily achieved – between the middle of 1872 and the middle of 1875 their circulation was continuously in excess of LT 200,000 and indeed, in June 1875, reached a peak of LT 426,605. However, the government bankruptcy of 1875 undermined confidence in them all over again, and in 1876 the BIO's monopoly of note issue was suspended as the government was forced once more to issue its own paper money in the form of *kaime*. This rendered it impossible for the Bank to make a start on rebuilding its circulation until the following decade, so that it was a very long time before the hopes that the founders of the Bank had invested in the issue of notes could be fully realized.¹⁶⁷

Second, the BIO as state bank was charged with '*toutes les opérations de trésorerie du gouvernement*' at Constantinople. On the one hand it was to receive and hold all government revenues arriving there, and on the other to pay all orders drawn on them by the Ministry of Finance. Outside the capital, at zmir, Trabzon, Beirut and Salonica, where it was provided that branches

were to be established at an early date, it was to receive such revenues as the ministry should assign to it, and similarly in other places where branches might be opened subsequently (Art. 13).¹⁶⁸ In fact, although the founders of the Bank had envisaged the development of a network of branches as a high priority, for reasons I have considered elsewhere, very few were in fact set up for a considerable number of years. The existing branches of the old Ottoman Bank at Izmir and Beirut were taken over as going concerns. In 1864 new branches were duly organized at Salonica and at Larnaca in Cyprus, and new sub-branches dependent on Izmir opened at Aydin, Manisa, Afyon and Antalya, but that (as far as the empire proper was concerned) was that until the mid-1870s. For many years, therefore, the proportion of government revenue handled by the Bank was much less than had originally been envisaged.¹⁶⁹

Third, the Bank was to furnish the government with financial accommodation, thereby freeing it, or so it was hoped, from reliance on the Galata bankers, and substituting an orderly system of short-term credit for the disorder and confusion which had hitherto prevailed. And because it would be orderly, and because the security against which advances were to be provided would be unimpeachable, they would carry a relatively low rate of interest, which in turn would relieve the imperial Treasury of a considerable burden. It was laid down that the Bank's financial assistance was to take the form of accepting *sergis*,¹⁷⁰ which were to be issued by the Ministry of Finance alone and not, as in the past, by each and every spending ministry. The *sergis* were to bear fixed maturity dates, not exceeding ninety days from the date of issue, and were to carry interest of not more than 6 per cent. The Bank undertook to discount them up to the value of the revenues it had received, with any excess being charged against the permanent revolving credit that it was to open for the government, but under no circumstances was it to be responsible for *sergis* exceeding the total of these two amounts. Each month the ministry was to fix the total of the *sergis* that it intended to put into circulation, but it was actually to issue them only after agreement with the Bank (Art. 13). As for the permanent credit, this was to be for the equivalent of LS 500,000 at 6 per cent, which was to be covered by Treasury Bonds of not more than ninety days' date payable out of specified revenues deriving from localities where the Bank had branches. These would mature regularly in sequence and be replaced by others, thereby providing a mechanism which ensured that the interest on the principal was regularly paid. Any increase in the amount of what came to be known as the statutory advance would, the convention provided, be the subject of special negotiations, and in any event the terms of the clause in question were to be subject to revision after five years. It is not clear for how long the system of discounting *sergis* actually functioned in

the way described, or indeed whether it ever did so; certainly there were no references to it in the negotiations about the renewal of the relevant clauses in 1868–69.¹⁷¹ However, the statutory advance, which was intended as a ‘fall back’ to which the government could resort to tide itself over periods of temporary financial short-fall, definitely never operated as envisaged. As we shall see, the government speedily borrowed the whole amount and, having done so, never repaid any of it but kept it all outstanding indefinitely, thus in effect securing a permanent loan of LS 500,000/LT 550,000 on very favourable terms, but leaving itself as much in need of short-term emergency advances at high rates of interest as ever.¹⁷²

Finally, the Bank was to be recognized as the government’s financial agent both inside and outside the empire, and in this capacity it was charged with making payments to the holders of the state’s internal debt and the transmission of funds necessary for payments on the external or foreign held one. In return it was to receive a commission of 1 per cent on the sums handled, plus an annual fee of LS 20,000, terms which were also subject to revision after five years.

It should be noted, however, that only in the case of the issue of paper money did the 1863 convention specifically and explicitly bestow a monopoly on the BIO. And while the wording of Article 13 certainly seems to imply that the Bank had the *sole* right to hold the government accounts in Constantinople, it is difficult to read any such implication into the other clauses under consideration. Article 14 did not, for instance, state that the BIO *alone* was to be charged with making payments on the public debt, nor did Article 15 proclaim it to be the government’s *sole* financial agent. Yet subsequent events were to show that the founders believed that the Porte had bound itself to deal only with them, or at least to give them the right of first refusal, for a much wider range of financial purposes than a strict reading of the convention seems to justify. In particular they were to claim a monopoly in the negotiation of foreign loans, even though these are not referred to as such in the convention at all – although they were mentioned in the statutes as one of the fields of activity to which the BIO might address itself. In due course this led to a conflict with the government over the scope of the concession which the Bank lost,¹⁷³ but in view of the way the agreements of February 1863 were worded, it is difficult to see quite why it believed that it was entitled to such extensive rights in the first place. However, the belief was sincerely and indeed passionately held, and in March 1865 the marquis de Ploëuc who had been closely involved in the negotiations told the Bank’s General Committee that he knew ‘perfectly well’ that it had been ‘an absolute engagement of the government, as of right, not to contract loans or enter into financial undertakings except through the Bank’.¹⁷⁴ It appears, therefore,

that in order to reach agreement in January 1863 the Anglo-French negotiators had accepted a less trenchant wording of several articles in the convention than would have been desirable. This may have been either the result of haste, or because they had received some kind of verbal assurances from the Ottoman ministers which their successors in office failed to honour.

Besides its role as state bank, the BIO was also empowered to undertake other forms of banking business. It had the right to make advances on a wide range of different types of security; to discount commercial paper; to buy and sell bills; to deal in merchandise on behalf of third parties and indeed '*de faire enfin toute opération que ressort des fonctions d'une institution de Banque*'. The statutes specified some of these other functions in more detail: tendering for government loans on its own account or that of third parties; dealing in coin and precious metals; exchange business; the recovery of arrears of rent, interest or dividends on behalf of third parties; the purchase and sale of public securities; and the acceptance of deposits at such rates of interest as the committee might determine. One or two activities which had featured in a memorandum drawn up at the time of the preliminary negotiations between the bankers were not, it is true, specifically mentioned in the documents which actually established the Bank. These included the making of advances on real property; subscribing or contracting for loans issued by bodies other than the state itself; and participation in the founding of other institutions '*ayant pour objet des avances sur hypothèque ou sur gage*'.¹⁷⁵ However, the BIO seems to have felt in no way inhibited from engaging in such matters. Advances were being made against land and buildings from the first, while the prominent part played in the establishment of the Société générale de l'Empire ottoman in 1864 reveals the BIO involved in the creation of a new financial institution for Constantinople very early in its own career.¹⁷⁶ The omissions do not, therefore, seem to be significant and were probably either accidental, or were deliberate economies in wording. The only amplification that was thought to be necessary after the experience of the first year's operations was the addition of a passage to Article 2 of the statutes authorizing the BIO to engage in so-called 'industrial' enterprises. The Bank had become involved in negotiations with the government for the concession to build a railway in European Turkey, and it was no doubt felt that it would be as well to make sure that there could be no legal objections from its own shareholders, or anyone else, on the grounds that it was straying beyond the bounds of the activities it could legitimately undertake.¹⁷⁷

Thus, even if the BIO did not, in the event, secure so complete a monopoly of government business as its founders had expected, nevertheless it had been set on foot empowered to undertake banking in the very widest sense. Probably the fact that in early 1863 there was, for the moment, no other joint

stock bank in Constantinople, or elsewhere in the empire, had emboldened the Anglo-French syndicate to secure authorization from the Ottoman government and their own shareholders to undertake just about everything. Possibly also, its members had taken to heart the warning of the marquis de Ploeuic that, since there was a real prospect of the Porte not meeting its financial commitments to the Bank, it was essential that the latter should develop its non-governmental business sufficiently so that, if need arose, it could survive independently of the government on a purely commercial basis.¹⁷⁸ The BIO was thus to be simultaneously a trade or merchant bank, a deposit or retail bank, an investment bank, a bank of issue (indeed, in the Ottoman Empire the only bank of issue) and the government or state bank.

The business developed by the BIO in the years after 1863 is not the concern of this book, but it should be remembered that, although its primary concern right through the period up to 1881 and beyond was the affairs of the Ottoman government, these were never the *only* matters with which it was concerned.

The ownership of the new national bank was throughout its existence overwhelmingly, though never quite entirely, non-Ottoman. As to control, according to the Bank's statutes this lay with a General Committee (in effect a board of directors or *conseil d'administration*) of up to twenty-five members chosen from among the founders, that is the directors of the old Ottoman Bank on the one hand and the *Crédit mobilier-haute banque* consortium on the other, or co-opted by them.¹⁷⁹ The English and French elements in this committee were always roughly equal in numbers, but from the very outset, and indeed throughout the entire history of the BIO, the latter were of much greater substance as financiers in their own right. This did not have any very obvious effects within the period to which this book is devoted. However, ultimately, along with the increasingly French composition of the shareholding body and the progressive loss of interest in Ottoman securities on the part of the London money market, it contributed substantially to the BIO becoming essentially a French rather than (as it was initially) an Anglo-French affair.

As we have seen earlier in this chapter, the financial group responsible for setting up the old Ottoman Bank in the first place included a number of bankers with a good name in the City,¹⁸⁰ but one by one in the years since 1856 they had left its board of directors. It is difficult to know quite what to make of this succession of resignations, but given that they began even before the Bank had begun operations at all, and that Layard, the chairman until 1861, was both notoriously choleric and outspoken and, even though he had no previous experience of banking, was determined to play a highly active role, it is more than probable that personality clashes were involved in many

of them. At any rate, for whatever reasons, one by one all the well-known and respectable bankers who had been involved with the Ottoman Bank at the start parted company with the concern they had helped to establish. Cummins and Campbell of the Union Bank of Australia, Weikersheim of Vienna, Hankey and Kingscote, and George Carr Glyn, representative of the largest and most solidly-based private bank in the country, Glyn Mills and Co., had all departed by 1862. Their replacements, moreover, were men of a different sort who were quite without the standing in the City that the departed directors unquestionably enjoyed. However, almost all of them can be shown to have had some prior connection with Layard, more than one was a close friend, and all probably owed their presence on the board to him. Between them they certainly possessed a wide range of expertise and experience, but only two of them (James Alexander of Fletcher Alexander; and Pascoe du Pré Grenfell of the Anglo-American merchant bank of Morton Rose) had a solid institutional affiliation through partnerships in well-established City firms, and neither could compare in this respect to the departed Hankey or Glyn. As for the remainder of what became the founding group of the BIO, they were headed by an elderly retired politician with business interests (Sir William Clay), and otherwise consisted of two professional managers whose experience lay in heavy industry rather than finance (L. M. Rate and G. T. Clark); a financier-promoter hitherto interested primarily in Egypt (Larking); a solicitor with political connections, specializing in company matters (Drake); a legally qualified scion of the aristocracy (T. C. Bruce, a son of the Earl of Elgin); and one other whose origin and profession remain obstinately obscure (Anderson).¹⁸¹

The statutes of the Bank, however, laid down that there should be at least ten committee members who were English or resident in London, as well as at least ten French, or resident in France. The nine English founders could thus co-opt additional colleagues, and a year after the establishment of the BIO they added two other directors who were very much like most of themselves in that they possessed experience which would be extremely useful, but who did not have an independent financial base through membership of a City firm, or even great personal wealth. One of these was Lord Hobart, the former Board of Trade official who had twice been to Constantinople on missions connected with Ottoman government finance in 1861–62. The other was J. W. Stewart, who had been the old Ottoman Bank's assistant manager in Constantinople.¹⁸²

There were not many changes in the composition of the London half of the committee for many years, but at the end of 1866 the elderly Clay retired. His replacement was, yet again, no banker or financier who could bring the support of an important City name, but the very individual who was apparently

responsible for the London Committee being composed in the way it was, the former chairman of the old Ottoman Bank, A. H. Layard. Layard had been a member of the Liberal government as Under Secretary at the Foreign Office since August 1861, but from June 1866 he was once more without employment. And so he returned in January 1867 to be chairman in Clay's stead and remained as such until he accepted Gladstone's offer to go as minister to Madrid towards the end of 1869. Bruce then succeeded him as chairman, and the vacant place on the committee was filled (in 1871) by Edward Gilbertson who had recently retired as *directeur général adjoint* in Constantinople. The one other vacancy to arise in the first five years of the Bank's history was when in 1867 it was decided that Hobart should go to Constantinople as the new *directeur général*. And it was only then (March 1868) that the London Committee was reinforced by the recruitment of a banker of substance, C. H. Mills of Glyn, Mills (now Glyn Mills Currie and Co.).¹⁸³ This re-created an association with a major private bank which had been severed when George Carr Glyn had left the old Ottoman Bank board in 1862, but the fact remains that none of the London Committee of the BIO, as it was constituted in 1863, was an important independent financier or the representative of another really substantial bank or finance house, and that even after 1868 only one of them could be so described. For many years the set of interlocking directorates created by the energy and enterprise of the most active of the other committee members, notably Rate, Grenfell and Drake, concealed the significance of this by the series of alliances they established with other concerns (notably the Anglo-Austrian Bank and the International Financial Society), and which to a large degree compensated for the fact that neither they nor the great majority of their colleagues were of real weight in the City.¹⁸⁴ Eventually, however, after the death or retirement of these individuals, the paucity of men of real financial substance on the London Committee was to become an important factor in the history of the Bank.

The Paris Committee, however, was very differently constituted. Indeed, the contrast between the two founding syndicates could hardly have been more marked, for the latter consisted of some of the most powerful elements in the world of French finance. The first main grouping within it was the great *Crédit mobilier* of Paris, together with its filial, the Madrid-based *Credito Mobiliario Español*. As is well known, the *Société générale de crédit mobilier* had been founded as a joint stock investment bank in 1852 and was a dominating presence in the French and indeed the European money markets for fifteen years. It played a very large part in making possible railway construction, both inside France and abroad, and was also important in providing funds for heavy industry, urban development and utilities, and in the creation of other banks. Always controversial, and regarded by some as a massive

exercise in speculation, by 1867 it had got into serious difficulties, but in early 1863 was still riding high and was without doubt one of the most important financial institutions in Europe.¹⁸⁵

Along with the French and Spanish *Crédit mobiliers* came the two main moving spirits behind them, Isaac and Émile Pereire, who were also involved as founders of the BIO in their capacity as individual financiers, as was Isaac's son Eugène. The Pereires were by this stage both enormously influential (with an incredible forty-four directorships between them) and enormously rich. Also involved were three other *administrateurs* of the Paris concern, Casimir Salvador, Frédéric Greininger and Vincent Buffarini, the two latter of whom had carried on the 1862–63 negotiations in Constantinople on behalf of their colleagues. All were undoubtedly financiers of considerable wealth in their own right, but their involvement as founders of the BIO was clearly as representatives of the *Crédit mobilier* rather than as independent bankers. Of the three, Casimir Salvador was the most important. He was the *Crédit mobilier's secrétaire général* and one of the most active members of its board, representing it on those of fourteen other companies in the 1860s, although from 1868 onwards he was to devote more and more of his attention to the affairs of the BIO.¹⁸⁶

The second main element among the French founders were a large group of private bankers – Hottinguer, Fould, Mallet, Pillet-Will, Seillière, Stern, the duc de Galliera; Mussard Audéoud et cie; and Marcuard André. Collectively these names represented the most prestigious and wealthy elements of the *haute banque*, that oligarchy of twenty-five or thirty Parisian banking firms which dominated French finance in the first half of the nineteenth century and remained important into the twentieth. The firms in question were of very diverse origins, but all were distinguished by a solid reputation built up over decades or generations of prudently conducted business, and by the high personal standing and influence this gave to the individuals who controlled them. Of those which contributed to the founding of the BIO, Mallet and Hottinguer had both been established in Paris since the eighteenth century; Marcuard, André (under the name of André alone) had moved there in the first year of the nineteenth; and Pillet-Will, too, dated back to the time of the First Empire. Mallet, Hottinguer and Pillet-Will had provided regents of the Bank of France in successive generations, the two former indeed having been involved with it from its inception. These banks were essentially family partnerships and were mostly endowed with quite small capitals but, deriving the bulk of the funds with which they worked from a small circle of very rich client-depositors, they could nevertheless operate on a considerable scale. Besides, the partners were all more or less wealthy in their own right, with private fortunes, some of which were very large. From the 1840s onwards the

haute banque in general had come to play a leading role in the mobilization of capital both for railway construction and for heavy industry, and in the 1850s and later they extended their sphere of operations to include similar undertakings all over Europe. They also came regularly to take a share in the flotation of governmental loans, and were involved in the establishment of a number of new joint stock banks besides the *Crédit mobilier* of 1852, of which of course the BIO was one. These wide-ranging interests were reflected in the large number of directorships they held. No others could, it is true, rival the Pereires and the Rothschilds in this respect, but in the period 1863–70 the Mallets held twenty-seven such positions, de Galliera and the Hottinguers thirteen each, the Foulds and Seillière eight each, the Andrés six, and Pillet-Will five.¹⁸⁷

Not all the French founders could be on the committee for there were too many of them. To begin with, however, three places went to people who were essentially representatives of the French *Crédit mobilier*, that is the two elder Pereires and Casimir Salvador, while another six were occupied by representatives of the *haute banque* firms (Alfred André, Ernest-Adolphe Fould, Jean-Henri Hottinguer, Charles Mallet, the comte Pillet-Will, and A. J. Stern), and one by the duc de Galliera.¹⁸⁸ Soon afterwards two more *Crédit mobilier* figures (Greininger and Buffarini) were co-opted, but as it turned out the Pereires and their associates were not destined to remain an important influence in the affairs of the BIO indefinitely. During the first half of 1868, with the affairs of the *Crédit mobilier* becoming increasingly embroiled,¹⁸⁹ the BIO cut loose from it, and at the annual shareholders' meeting in the June of that year, several of those committee members most closely associated with the parent bank, including both of the Pereire brothers and Grieninger (but not Salvador), stood down.¹⁹⁰ However, the effect of this change was in no way to weaken the French half of the General Committee *vis-à-vis* the Paris market, for by this stage independence of the *Crédit mobilier* was undoubtedly a positive advantage, opening up possibilities for financial alliances that previously would have been blocked by the extensive distrust with which the latter was regarded.¹⁹¹ And even without the *Crédit mobilier* and the Pereires, the French financiers behind the BIO remained much more substantial than the English ones, even after C. H. Mills had joined the London Committee. What the breach with the *Crédit mobilier* did do was to leave a small group of private banking firms – initially Mallet, Hottinguer, Pillet-Will, Marcuard André, and Demachy et Seillière – in an unchallengeable position on the French side. And as time went on the steadily increasing wealth of these cautiously managed concerns, their growing circle of financial contacts, and their positions on the *conseils d'administration* of so many other firms, all tended to increase the disparity in the relative standing of the two halves of the General Committee

so that gradually but inexorably, the balance of power within the BIO shifted towards Paris.

If ultimate control within the BIO was vested in a large General Committee, the two halves of which came to be referred to (albeit inaccurately) as the London and Paris Committees, to start with this body in practice confined itself mainly to such internal matters as the annual report to the shareholders, the dividend to be declared, increases in capital and appointments of the most senior managers. Business specific to the London branch, which had an existence separate from that of the Bank in Constantinople from the first, and the affairs of the Paris branch when one was created in 1868, was completely the responsibility of the English and French committee members respectively. The power of decisions about everything else, however, was delegated by the General Committee to a sub-committee of eight, four English and four French, only half of whom seem to have been fully active at any one time. In respect of this sub-committee, the full General Committee was entitled to express opinions on policy, but not to supersede it as a decision-taking body, although it might have been (if need arose, which apparently it never did) called upon to arbitrate if differences of opinion within the sub-committee had created a deadlock.¹⁹² During most of the 1860s, therefore, to all intents and purposes, it was this small handful of sub-committee members maintaining contact and reaching decisions mainly by means of correspondence, but also by attendance at each other's meetings when necessary, who controlled the destinies and decided the policies of the Ottoman Empire's state bank. The individuals involved between 1863 and 1868 were a shifting group, but none of them could give more than a part, and often only a small part, of his attention to the affairs of the BIO because of responsibilities to other concerns and to private affairs. As the scale and complexity of the Bank's operations grew, this system thus became increasingly unsatisfactory. Casimir Salvador was one of the most active of the French members of the sub-committee, but it may be remembered that he was also *secrétaire général* of the *Crédit mobilier* as well as an *administrateur* of many other companies. Again and again, therefore, he was obliged to preface his letters to *directeur général* de Ploëuc in Constantinople with apologies that he could devote so little time to thinking about BIO affairs. On 28 May 1864, for instance, he wrote: '*Je voudrais avoir une semaine devant moi pour m'occupe exclusivement de vos affaires turques. Hélas! Hélas!! Je ne trouve pas un jour.*' And again in January 1867: '*Chaque semaine je me dis que je me donnerai de la temps pour pouvoir vous écrire à tête reposée. Puis le vendredi arrive ...*'¹⁹³

There were, of course, full-time secretaries in both London and Paris

through whom official correspondence between each, and between both and Constantinople, passed. But what was clearly needed was someone of committee status who could devote himself primarily to the BIO and would be able to shoulder responsibility in the first instance, thereby relieving the sub-committee of a burden which it was becoming increasingly impractical for it to carry. And so in 1868, the earliest date at which, according to the statutes, the administrative system of the Bank could be altered, important changes were instituted which seemingly downgraded the role of the sub-committee relative to the General Committee and established a new post of *administrateur délégué* or managing director. This was then filled by Salvador, whose time was freed by contemporaneous changes at the *Crédit mobilier*.¹⁹⁴ As a result, from 1868 until his death in 1876, the BIO had in effect a full-time chief executive, albeit one very much responsible to the General Committee upon which he sat but only as an ordinary member and never as chairman or *président*, even of the French half. After Salvador's death, some aspects of his role seem to have been inherited by Georges Naville, who held the post of *secrétaire général*, and then from late 1878 by his successor in post, Théodore Berger. Berger was eventually appointed *administrateur* and joined the committee in 1882 but even before that he had begun to emerge as the leading figure in the Bank which, for most practical purposes, he came to dominate as completely as Salvador had before him.¹⁹⁵ At various times particular committee members, on the French side especially the *président* Charles Mallet, and on the English Bruce, Rate and Gilbertson, also played very active roles in the Bank's affairs, but never on the continuous basis that characterized those of Salvador and Berger. The fact that both of these two were French and Paris-based was yet another factor in the conversion of the BIO from an Anglo-French into a primarily French bank.

Control over the affairs of the BIO was exercised from London and Paris, and increasingly from the latter rather than the former, but the actual management of its finances as well as the conduct of its relations with the Ottoman government was in the hands of those whom the committees placed in charge of its *siège central* in Constantinople. The titular head of the Bank in the Ottoman capital was the *directeur général*, a post held first by the marquis de Ploëuc (1863–67), the French official sent out to act as financial adviser to the Porte at the end of the 1850s; and then successively by his two English counterparts, Lord Hobart (1867–71) and Morgan Foster (1871–89). It should be noted, however, that although this might suggest that the French and English governments were somehow involved in the appointments there is in fact absolutely no evidence that such was the case. The *directeur général's* primary responsibility was to handle relations with the Ottoman ministers and the experience that these three had gained during their various missions

to Constantinople meant that they were better qualified to do this than anyone else who could have been found.

However, responsibility for the affairs of the Bank was not the *directeur général's* alone, but was shared by a collective *direction générale* which at different times numbered two, three or four, assisted (until 1874) by an advisory *conseil d'administration* composed of local bankers.¹⁹⁶ The other members of the *direction* played a very large part in what went on, and corresponded with London and Paris independently of the *directeur général* so that they were definitely his colleagues rather than his subordinates. The most important of them, whom we shall encounter repeatedly during the remainder of this book, were Edward Gilbertson, Emile Deveaux, Johan von Haas and Richard Edwards. Gilbertson, who held the post of *directeur général adjoint* from 1863 to 1871, had been the old Ottoman Bank's Constantinople manager and thus had the technical experience of banking that the two *directeurs général* with whom he served clearly lacked. And since Hobart was, for whatever reason, absent from Constantinople for long periods during his tenure and apparently a lame duck even when he was not, Gilbertson was actually the one in charge at the *siège central* for much if not all of the time in the later 1860s and very early 1870s. Deveaux was, like de Ploëuc (whom he had accompanied when the latter first came out to Constantinople in 1859), a French Finance Ministry official by training. He joined the *siège central* as *secrétaire général* in 1866, was promoted *directeur* in 1868 and served as such until he eventually retired in 1889, having been second-in-command ever since Gilbertson's departure for home in 1871. Von Haas, a German, was brought into the *direction* in 1873 as *directeur adjoint* having previously been manager of the BIO branch in Beirut, so that he, like Gilbertson (but unlike the three *directeurs général* and Deveaux) was a career banker. So too was the last of the four individuals mentioned above, Richard Edwards, or Edwards *Efendi*, as he was always called, apparently because he had worked for the Ottoman government in some capacity at one time. Edwards, who carried the title of *administrateur*, came into the service of the BIO in 1874 when it took over the Banque austro-ottomane, one of whose principal managers he had previously been. He was an zmir-born Englishman and was valued by the BIO for his linguistic skills (he was fluent in Turkish) and his contacts among the Ottoman elite.¹⁹⁷

On matters of importance the BIO's *direction générale* in Constantinople had either to seek prior approval or subsequent ratification from higher authority in London and Paris, and on occasions we shall see that their actions were disavowed.¹⁹⁸ Generally, however, the relationship between the managers and those to whom they were responsible operated smoothly and did not give rise to serious difficulties. However, it is the innumerable letters

and other written documents to which the geographical separation of control and management gave rise that provides much of the information upon which this work is based. It is true that relatively little of the formal or 'official' correspondence between the *direction* and the committees has survived for the period up to 1881. However, there are many hundreds of informal or 'private' letters written by individual members of the *direction*, especially Gilbertson, Deveaux and von Haas, and these provide a more intimate and in many ways more interesting view of events and personalities. On their own they could not be wholly relied upon, either as to accuracy or objectivity, but combined with the other sources available they are enormously valuable and provide much of the flavour of the narrative which follows.