

Attempt to Unificate the Debts of the Ottoman Empire (1903)¹

Abstract: It is known that throughout Ottoman history, the state developed and used internal borrowing methods when it needed cash. Various efforts to raise funds through methods such as transfers from the internal treasury, "mukataa", "malikâne", "esham", forcing statesmen to donate, borrowing from money changers and bankers, and confiscation are evident. No loans were taken from a foreign country until the second half of the 19th century. In 1854, during the Crimean War, a loan was taken from England for the first time. Over time, the amount of foreign capital entering the country increased and the state became unable to pay them and declared bankruptcy in 1875. With the Muharrem Decree in 1881, Public Debt Administration was established and a payment system for debts was established. However, the financial independence of the state has also been disrupted. Consolidation of debts, an extraordinary practice that draws attention in the payment of debts, constitutes the main theme of this presentation. Documents on the subject in both the Ottoman Archives and the British Archives regarding the implementation methods of the Ottoman administration, which wanted to consolidate and prioritize the accumulated debts, will serve as the source of this study. These documents will be examined comparatively and their effects on the field of application and the management content applied during the payment of debts will be explained. This subject, which is multidimensional and has predominant technical aspects, has been discussed in general terms in its historical integrity and is aimed to be a source for future studies on this subject.

Keywords: Ottoman Empire, Public Debts, Economy, Unification of the Debts.

Összefoglalás: Ismeretes, hogy az oszmán történelem során az állam belső hitefelvételi módszereket fejlesztett ki és alkalmazott, amikor készpénzre volt szüksége. Nyilvánvalóak a különféle erőfeszítések a forrásszerzésre olyan

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[1] Pamuk, Şevket (2016): *Osmanlı Ekonomisi ve Kurumları*. Türkiye İş Bankası. İstanbul.

módszerekkel, mint például a belső kincstári átutalások, mint a "mukataa", a "malikâne" és az "esham", az államférfiak adakozásra kényszerítése, a pénzváltóktól és bankároktól történő kölcsönfelvétel, valamint az elkobzás. A 19. század második feléig nem kértek hitelt idegen országokból. 1854-ben, a krími háború idején vettek fel először kölcsönt Angliától. Az idő múlásával az országba érkező külföldi tőke mennyisége megnőtt, az állam képtelenné vált azokat kifizetni, majd 1875-ben csődöt jelentett. Az 1881-es muharremi rendelettel megalakult az államadósság-igazgatás és a tartozások fizetési rendszere. Ugyanakkor az állam pénzügyi függetlensége is megszakadt. A jelen tanulmány témája az adósságok konszolidációja, egy rendkívüli gyakorlat, amely felhívja a figyelmet az adósságok kifizetésének fontosságára. A tanulmány forrásául mind az Oszmán Levéltárban, mind a Brit Levéltárban található, a felhalmozott adósságokat konszolidálni és rangsorolni kívánó oszmán adminisztráció végrehajtási módszereire vonatkozó témával kapcsolatos dokumentumok szolgálnak. Összehasonlító jelleggel vizsgáljuk ezeket a dokumentumokat, kifejtjük az alkalmazási területre gyakorolt hatásukat és a tartozások kifizetése során alkalmazott gazdálkodási tartalmat. Ezt a többdimenziós témát, amelynek túlnyomórészt technikai vonatkozásai vannak, mindeddig kizárólag általánosságban, történeti integritásában tárgyalták. A jelen tanulmány célja, hogy a témával kapcsolatos jövőbeli tanulmányok forrásává váljon.

Kulcsszavak: Oszmán Birodalom, államadósságok, gazdaság, az adósságok egysége-sítése.

Introduction

In the second half of the 16th century, when the financial needs of the Ottoman Empire became apparent, loans were obtained from government officials and the treasury of the sultanate (internal treasury). On the other hand, the iltizam system (to assign at a stipulated price the collection of revenue) had been used for centuries to collect revenues from the Ottoman enterprises (mukataa). From the 17th century onwards, with the worsening of financial conditions, the iltizam practice was expanded, and the tax farmers (mültezim) were entrusted with broader powers. The iltizam, a long-term contract for collecting central state revenues, gradually evolved into a method of internal borrowing [1].

The government enterprises known as mukataas began to be leased for life in 1695 and evolved into a practice called Malikâne. In the auctions for iltizams, an upfront payment (muaccele) was taken first, followed by annual payments (müeccele) in instalments to be paid to the state. The Malikâne practice continued until the emergence of the esham system in 1775 [2]. Esham was an internal borrowing method implemented between 1775 and 1870. In this system, a portion of the annual revenues from various taxes was divided into small shares and sold to individuals for lifelong savings in exchange for an upfront payment. This enabled small and medium-sized entrepreneurs to participate in the financial market, and partial financial relief was achieved as tax revenues were collected upfront [3]. Eshams were sold at a price between six to seven times the fixed annual income they provided. During the Ottoman–Russian Wars between 1787 and 1792, there was an unsuccessful trend towards borrowing money from a foreign country for the first time.

Similarly, an application made to the Sultanate of Morocco also resulted in a negative outcome, leading to the widespread application of confiscation to alleviate financial crises during wartime [1]. The last phase of internal borrowing was marked by the regulations issued at the beginning of the Tanzimat period (1840). The first paper money, known as "kaime", was bonds with an annual interest rate of 12.5%. Later, interest-free kaimes were developed. Due to the failure to achieve the expected yield, the kaime application was discontinued in 1862. The second period of kaimes was during the 1877–78 Ottoman–Russian War, and the third period was during the First World War in 1915 [4].

It is not coincidental that pivotal moments in developing internal borrowing instruments coincided with significant years of warfare. The year 1695 followed the Holy League wars, which lasted for 16 years after the Second Siege of Vienna in 1683. The year 1775 followed immediately after the Russo–Turkish wars of 1768–1774. Thus, military expenditures, war indemnities, or reforms compelled the state to utilize its financial sourcing capabilities exhaustively. Major events such as economic crises, wars, and reforms shaped the history of Ottoman internal borrowing and currency.

[1] Pamuk, Şevket (2016): *Osmanlı Ekonomisi ve Kurumları*. Türkiye İş Bankası. İstanbul.

[2] Genç, Mehmet (2003): *"Malikâne", Türkiye Diyanet Vakfı İslam Ansiklopedisi*. Ankara: TDV, pp. 516–518.

[3] Genç, Mehmet (1995): *"Esham", Türkiye Diyanet Vakfı İslam Ansiklopedisi*. İstanbul: TDV, 11., pp. 376–380.

[4] Akyıldız, Ali (2001): *"Kaime", Türkiye Diyanet Vakfı İslam Ansiklopedisi*. İstanbul: TDV, 24., pp. 212–215.

[5] Tabakoğlu, Ahmet (2012.): *Türkiye İktisat Tarihi*. İstanbul: Dergâh.

[6] Arı, Bülent (2001): “Osmanlı Maliyesinin İflası ve 1854 İstikrazı”. *Doğubatı (Ekonomi)*. Felsefe Sanat ve Kültür. Ankara, pp. 43–54.

[7] Kıray, Emine (2008): *Osmanlı'da Ekonomik Yapı ve Dış Borçlar*. İstanbul: İletişim.

[8] Şahin, Canay (2001): “Yeni Bir Çalışma Işığında Osmanlı'da Dış Borçlanma ve Mali İflas Üzerine”. *Doğubatı (Ekonomi)*. Felsefe Sanat ve Kültür. Ankara, pp. 55–67.

[9] Georgeon, François (2018): *Sultan Abdülhamid*. Çev. Ali Berktaş. İstanbul: İletişim.

Ottoman Finance in the Grip of Foreign Depts

Foreign capital investments in the Ottoman Empire can be evaluated in two categories. The first is foreign borrowing through bond sales on European stock exchanges since 1854, and the second is direct investments by foreign investors such as companies, banks, railways, ports, and mining operations established in the country. Between 1854 and 1876, approximately 10% of the foreign capital entering the country was converted into direct investment, while this ratio was 54% between 1876 and 1909. Therefore, during this second period, foreign capital was directed more towards investment [5].

It was mentioned earlier that a tendency towards foreign borrowing emerged from the late 18th century onwards, but it did not materialize. Under conditions exacerbated by the Tanzimat reforms, palace expenses, and issues such as the Egyptian Question, attempts were made to borrow money from the French in 1851 through the efforts of Mustafa Reşid Pasha, but this attempt was thwarted due to Sultan Abdülmecid's resistance. However, the deterioration of relations with Russia in 1853 and the outbreak of the Crimean War from 1853 to 1856 further deepened the Ottoman financial crisis. Under these circumstances, after the inadequacy of internal borrowing measures became apparent, borrowing was pursued from the allied England in 1854 at an interest rate of 8% (or 6%) with a loan of £3,000,000. The Egyptian tax was pledged as collateral for this borrowing [6]. Between 1854 and 1874, borrowing occurred 16 times from foreign institutions [7]. In each borrowing period, they used state revenue sources as collateral, placing the state under the mortgage of foreigners. Faced with a total debt burden of £195,000,000 in 1875, Ottoman administrators were forced to declare the state's bankruptcy by suspending half of the interest payments on these debts (1875) [8]. In addition to the public debt stock related to this bankruptcy, the famines and Balkan crises that occurred during those years should also be considered.

After the crisis of 1875, the state did not accept proposals from Europeans to transfer the management of Ottoman finance and debt to international commissions. The 1877–78 Ottoman–Russian War led to the interruption of negotiations. After the war, negotiations resumed. The establishment of the Rüsum-ı Sitte Administration in 1879 (six types of taxes) proved successful and provided significant relief in foreign debt payments [9].

Subsequently, the Muharrem Decree, declared by the government in 1881, regarding Ottoman debts yielded more concrete results, and the Ottoman Public Debt Administration was established. The decree concerned all debts except for those from the 1854, 1855, 1871, and 1877 borrowings, which were backed by the Egyptian tax. Through this measure, the debt stock was halved, payment terms were reorganized with reduced interest rates, and the administration of six tax items (salt, stamp, alcoholic beverages, silk, fish, and tobacco) was entrusted to the debt administration [10]. With the establishment of the Ottoman Public

Debt Administration in 1881, Ottoman debts were reduced from about 220 million to approximately 125 million, and the existing debts were unified into A, B, C, and D classes [10]. Some of the Ottoman finance's tax resources came under foreign control, and these revenues began to be directly transferred to European creditors [11]. Ottoman Public Debt Administration can be described as a successful measure in debt repayment.

In addition, the institution's services in modernizing Ottoman production models in specific sectors are also significant [7]. The establishment of the Debt Administration, representing a reversal from the bankruptcy of 1875 and the preservation of the state's and the Sultan's prestige, was a choice of the lesser evil, indicating the continuation of the state's existence and power [9].

On the other hand, the foreign borrowing process that culminated in debt administration resulted in a heavier financial burden than the internal finance process before the 1840s [1]. The borrowing funds were primarily directed towards consumption, allocated for budget deficits and palace expenses, exorbitant interest rates compared to market rates, granting of financial, economic, and judicial privileges to borrowing states, and the undermining of Ottoman financial independence by the Ottoman Public Debt Administration are factors that thoroughly disrupted the already complex financial system of the state. These have been recorded as reasons for the failure of the foreign borrowing process from start to finish [12]. The Ottoman Empire, on the brink of losing its economic and political independence due to debts, could not escape the demands for privileges from the lending foreigners and interventions in internal administration [13].

[1] Pamuk, Şevket (2016): *Osmanlı Ekonomisi ve Kurumları*. Türkiye İş Bankası. İstanbul.

[7] Kıray, Emine (2008): *Osmanlı'da Ekonomik Yapı ve Dış Borçlar*. İstanbul: İletişim.

[10] Küçük, Cevdet-Ertüzün, Tevfik (1994) "Duyun-ı Umumiye". *Türkiye Diyanet Vakfı İslam Ansiklopedisi*. İstanbul: TDV, 10., pp. 58–62.

[11] Pamuk, Şevket (2018): *Osmanlı Ekonomisinde Bağımlılık ve Büyüme 1820–1913*. Türkiye İş Bankası. İstanbul.

[12] Suvla, Refi-Şükrü (1999): "Tanzimat Devrinde İstikrazlar", *Tanzimat-1*. İstanbul: MEB, pp. 263–288.

[13] Novıçev, A. D. (1979): *Osmanlı İmparatorluğu'nun Yarı Sömürgeleşmesi*. Çev. Nabi Dinçer. Ankara: İlkıyaz.

[7] Kıray, Emine (2008): *Osmanlı'da Ekonomik Yapı ve Dış Borçlar*. İstanbul: İletişim.

[14] Yerasimos, Stefanos (1975): *Azgeleşmişlik Sürecinde Türkiye*. Çev. Babür Kuzucu. Gözlem. İstanbul.

[15] Karamursal, Ziya (1989): *Osmanlı Mali Tarihi Hakkında Tetkikler*. Ankara: TTK.

[16] Karakaş, Büşra (2023): *Son Dönem Osmanlı Nazırlarından Ahmed Zühdü Paşa*. Yayınlanmamış Yüksek Lisans Tezi, Ağrı İbrahim Çeçen Üniversitesi Sosyal Bilimler Enstitüsü.

Ultimately, observations indicating that the Ottoman Empire fell into the grip of Western imperialism due to foreign debts appear to be accurate[14]. In this regard, as Kıray has emphasized at various points in his work, the exposure of countries borrowing from institutions like the IMF and the World Bank in the 20th century to financial and administrative pressures supports the paradigm of borrowing countries obeying orders [7].

The Unification of Ottoman Debts

1881, when the Ottoman Public Debt Administration was established, the A-class debts of the Ottoman Empire, from the borrowings of 1858 and 1862, had been completely paid off. In 1903, the remaining B, C, and D class debts were unified through negotiations with foreign representatives of the Debt Administration [15].

The foundations of the unification of Ottoman foreign debts were laid during the tenure of Ahmed Zühdü Pasha as Minister of Finance. Ahmed Zühdü Pasha, who served the Ottoman State in the field of finance for many years and held the position of minister, undertook active missions in the borrowing processes [16]. The consolidation process initiated during his tenure concluded two years later during the ministry of Ahmed Reşad Pasha (1901–1903). In a report drafted by a commission including Finance Minister Zühdü Pasha and Finance Ministry Advisor Refaof Bey, regarding the Debt Administration, it is stated that "the elimination of this structure that complicates financial and administrative affairs will bring countless beauties and great benefits to the state." Furthermore, it was mentioned that if the mentioned debts of the three classes were unified, their total amount could be reduced from 79 million lire to 30 or even 26 million. Measures to achieve this reduction were listed. It was shown that it was possible to pay off unified debts to be paid in 56 years in 37 years, and the bonds of the Rumeli Railways to be paid in 74 years in 45 years. It was evaluated that a significant profit would be made if the debt administration's wasteful practices and the population's high tax demands were prevented. Additionally, it was emphasized that since the buildings were constructed with the reserve fund of the Ottoman Public Debt Administration, the purchased ships and other tools and equipment were realized with Ottoman resources, so they naturally should belong to the state.

It was stated that insistence should be made in the contracts regarding the unification of debts for these properties to be left to the state. If the measures proposed here are implemented, the debt administration and all its components will be eliminated, and the state will be virtually revitalized. Measures regarding the balance of payments were also listed in this report, proposing the unification of the three classes of debt (B, C, and D) and the bonds of the Rumeli Railways. For instance, payments made to the debt administration will stabilize, excess revenues from the administration's operation, the introduction of a patent tax, additional revenues from the implementation of the new stamp law, and excess revenues from trade agreements will belong to the state treasury. These revenues will also alleviate the treasury and significantly alleviate financial needs (BOA. Y. EE. 45/40). This record signifies a solid will to quickly and efficiently repay debts, seeking solutions to avoid wasting public resources while safeguarding the state's interests. It underscores the discomfort of state officials with the existence of the Ottoman Public Debt Administration.

The British records dated February 1903 mention that the Turkish government had been making significant efforts to promptly implement the merger plan that had been under consideration for some time. According to the records, a considerable amount was expected from the revenues of Eastern Rumelia, so the government was keen to address this issue. It aimed to complete the merger process before the end of the fiscal year. Otherwise, it was evaluated that the prices of shares would rise, and the transformation would become more complex. It was reported that opposition to the unification of debts had ceased, and various financial groups, the Ottoman Bank, Deutsche Bank, and various Palace circles, were working in harmony. It was even noted that Selim (Melhame) Pasha, one of the most vehement opponents of the merger plan (either due to his enmity towards Said Pasha or perhaps because of Russian influence), had been persuaded to join the majority supporting this proposal. The advantages that the Turkish government hoped to gain from this process included the consolidation of debts into a single type, reducing the public debt stock to 32 million, and the government's claim for a share of any increase in revenue resulting from the tariff amendment under Article 8 of the Muharrem Decree (a mention of 75%). It was emphasized that such an increase would only benefit the public debt. If the merger were to occur, the Turkish government aimed to receive up to 800,000 Turkish liras annually from its source for the kilometre guarantee of the Baghdad Railway, which was in the hands of the Germans. This situation explains the Russians' opposition to the merger plan. While the surplus in revenues had been allocated to the repayment of debts, if the merger were to occur, these revenues would go to the Ottoman government and contribute to the repayment of debts.

On the other hand, the difference in stamp taxes between the Ottoman Public Debt Administration and the government had also been eliminated, and the revenues obtained from here had significantly increased. Given the approaching Eid al-Adha and the end of the fiscal year, the importance of this process becomes more evident, especially considering the government's urgent need for 300,000 liras (TNA. FO. 424/205).

[17] Pakalın, Mehmet Zeki (1977): *Maliye Teşkilatı Tarihi (1442-1930)*. Ankara: MEB.

[18] Yılmaz, Faruk (1995): *Hukuki-İktisadi-Mali Yönleriyle Osmanlı Borçları'nın (Duyûn-ı Umûmiye-i Osmaniye'nin) Tasfiyesi Meselesi*. Yayınlanmamış Doktora Tezi. İstanbul: İstanbul Üniversitesi Sosyal Bilimler Enstitüsü.

Following these statements, two separate memoranda dated February 1903 by Henry Babington Smith, who signed the debt unification process, were included. The memorandum begins with the expression that a critical period was experienced in Ottoman finance and debt history. These memoranda, containing extensive evaluations such as general debts, the Ottoman Empire's financial situation, and the merger process's technical details, parallel Ottoman sources in terms of content (TNA. FO. 424/205).

According to the statements of the Ottoman Grand Vizier Said Pasha, the first attempts to consolidate the debts were made during the tenure of his predecessor, Grand Vizier Rifat Pasha, when a proposal was made to the former French Minister of Finance, Rouvier. This proposal emphasized the preservation of the state's finances and the creditors' rights. Rouvier responded positively to Rifat Pasha's proposal and expressed his satisfaction with working on this matter. However, he noted the need to consider delicate balances such as the general political and economic situation in Europe, the value of securities in the markets, and the profit-loss situations of bondholders. In a subsequent letter, Rouvier mentioned that he had prepared a report on the matter (Said Pasha 2018: 368). According to archive records, Rouvier acted as an intermediary between the Ottoman government and European credit institutions and holders of Ottoman bonds to unify debts. The same record also indicated that the outright acceptance of Rouvier's proposal needed to be deemed suitable for the state's interests (BOA. Y. A. HUS. 426/47). On the other hand, according to the French perspective, Rouvier was one of the principal architects of this process and one of those who pressured the Ottoman government into it (BOA. HR. İD. 1994/12). Although the unification process, which was hoped to be highly beneficial for the state treasury and financial management, was expected to be highly beneficial from the perspective of the state treasury and financial management, it was prolonged and suffered losses over time due to factors such as stock market manipulations and the presence of irresponsible individuals in the parliament and commissions. However, it is noted that one of the most influential and constructive commissions during this process was chaired by Reshat Pasha and included Zuhdi Pasha, the Minister of Education at the time, and Zihni Pasha, the Minister of Commerce and Public Works [17].

According to the agreement between the government and the debt administration, new bonds, each valued at 22 lire (20 pounds, 500 francs), bearing 4% interest and 0.45% amortization, were to be issued, and the old equivalents were to be considered valid. Thus, the B, C, and D class bonds defined in 1881 would be consolidated [18].

Following negotiations that began in 1901 and concluded in September 1903, the process of unification debts was decided upon with the signatures of Grand Vizier Ferid, Finance Minister Reshad Pashas, and the President of the Ottoman Public Debt Administration, Mr. Henry Babington Smith [17]. The bonds of the Rumeli Railways were excluded from this unification process. Consequently, the debts contracted during the reigns of Sultan Abdülmecid and Abdülaziz were reduced to 32,738,772 Ottoman liras. This resulted in shortened payment terms and adjustments in favour of the state in the payment conditions [15].

As a result:

- * The mentioned 70 million lira debts were reduced to 32 million.
- * Stability was brought to the prices of Ottoman bonds in the markets, increasing confidence.
- * 75% of the excess income allocated to debt administration was transferred to the treasury, while avenues for the use of the remaining 25% by the treasury were developed.
- * Interest payments on bonus-bearing railway bonds were abolished, and it was deemed more beneficial to provide them as bonuses and amortization.
- * The Ottoman Government was granted the right to eliminate all consolidated debts by paying their total value starting from 1913 [17].

It is understood that the sectors from which the Ottoman State borrowed are satisfied with these debt unification operations. Indeed, they have benefited in subsequent periods as prices have risen. This is because both the bonds with 25% interest, known as "duyun-ı mümtaze," increased the prices of lottery tickets. The Ottoman State also gained the advantage of obtaining 75% of the surplus income under the control of the Public Debt Administration. However, this amount will be a guarantee or source for subsequent borrowings [17].

Summary

From the second half of the 16th century onward, the Ottoman Empire began to deeply feel the debilitating effects of prolonged wars on its economy. Ottoman ruling elites developed various forms of domestic borrowing methods, managing to

[15] Karamursal, Ziya (1989): *Osmanlı Mali Tarihi Hakkında Tetkikler*. Ankara: TTK.

[17] Pakalın, Mehmet Zeki (1977): *Maliye Teşkilatı Tarihi (1442-1930)*. Ankara: MEB.

alleviate these financial problems by depleting internal resources until the middle of the 19th century. However, when the inadequacy of these resources became apparent, especially during long and exhausting wars with Russia, attempts were made to resort to external sources. Internal balances did not allow for foreign capital inflows into the country. Realizing the impossibility of sustaining themselves with these resources during the Crimean War, the Ottomans resorted to external borrowing for the first time. This process, which began in 1854, resulted in the state declaring bankruptcy in 1875 and handing over some tax revenues to the newly established Public Debt Administration in 1881.

The Ottomans never approached this administration with positive feelings and did not forget that it was a tool of exploitation. However, they were forced to make the best of a bad situation and partially agreed to this institution's collection of state revenues to offset the debts. Significant reductions were made in the debt stock, and repayment terms were revised during the establishment of this administration and the process of consolidating debts, emphasizing the importance of politicians advocating for the state's interests. Determining to rid themselves of debt management immediately is also noteworthy. As a result, in 1903, Ottoman debts were unified, more favourable repayment terms were decided upon, and government control over state revenues was sought to be strengthened. In today's world, the production of sound fiscal policies by countries invaded by foreign capital, the appointment of politicians who prioritize the state's interests, and efforts to develop domestic resources constitute the basic requirements for sustainable fiscal policies.