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## ARTICLES

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### *A New Look at the Problem of Economic Growth in the Ottoman Empire (1800-1914)*

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#### I

The long-standing western challenge to Middle Eastern society assumed grave proportions at the beginning of the XIXth century and forced the Ottoman Empire to embark upon the painful road to modernisation. For the economic historian the problem is to account for economic developments within the total process of modernisation undertaken by the Empire during the XIXth century. What was the nature and timing of economic transformation in the wake of modernisation, assuming we agree that some economic change occurred between 1800 and 1914? More particularly, did a process of economic growth, in the modern sense, take place at all during the long and tortuous modernisation movement?

Few writers have linked the subjects of modernisation and economic transformation in the Empire and fewer still have attempted a general analysis of economic change within Turkish modernisation. The few Turkish writers who have put forward an overall view mostly belong to the Marxist-Leninist school, and their wholly negative verdict upon economic developments is coloured by their ideological commitment. On the other hand, two prominent foreign economic historians, Z. Y. Hershlag and Charles Issawi, have also written ex-

tensively upon various aspects of the economic history of the Empire and of the Middle East, and their final conclusions upon the course taken by the Ottoman economy during 1800-1914 is significantly different. Z. Y. Hershlag seems to share the conclusions of Turkish marxist writers as to the negative effects of foreign domination for the Ottoman economy, in his description of the destruction of the Ottoman economy at the end of the XIXth century<sup>1</sup>. On the other hand, Charles Issawi, in his recent book on the economic history of Turkey, talks instead of Turkey being poised for an economic upsurge just before the First World War but being condemned instead to eight years of shattering warfare.<sup>2</sup>

The time has come to take a fresh look, and to see what happened to the Ottoman leaders during the period of the modernisation of the Empire. Before we bow to fashionable trends of thought and condemn both the impact of foreign domination and the incompetence and corruption of Ottoman leaders during the XIXth century; we must look afresh both at economic attitudes and at the salient facts of the XIXth century not only in terms of economic events, but also of strategic and political developments as well.

First, we must try to evaluate what happened to the traditional values of the Ottoman society, following the initial phase of modernisation. Did these values undergo quick and radical changes or did they linger on well until the turn of the century? My impression is that change was very slow indeed, and that the principal economic decisions of the Tanzimat leaders can only be understood in the context of the continuity in the value pattern. The problem with current neo-marxist views of Ottoman history is the assumption that modern motivations existed among decision-makers 150 years ago. Further, economic decisions in the XIXth century should be evaluated within the political and military constraints prevailing at the time.

<sup>1</sup> Z. Y. HERSHLAG, *Introduction to The Modern Economic History of The Middle East*, Leiden, E. J. BRILL.

<sup>2</sup> CHARLES ISSAWI, *The Economic History of Turkey, 1800-1914*, Chicago. The University of Chicago Press, 1980.

Evaluating the probable effects of foreign domination (in its political and economic forms) creates another problem, namely that of avoiding present political and ideological considerations when interpreting past developments. The impact of foreign domination is a very complex question and there are many sides to the question to be explored.

This paper will attempt to explore these questions and to give a picture of economic developments in the XIXth century quite different from the gloomy tales of incompetence and destruction that are to be found in most recent writings about the subject.

The principal themes touched upon in the paper are the following:

First, what were the political and strategic constraints under which the Tanzimat leaders were placed, when making decisions carrying economic connotations and consequences? Economic decisions are not taken independently from political and strategic conditions, either in the past or in the present.

Secondly, turning to economic decisions themselves, what do we know about the degree of economic awareness and economic knowledge of the Tanzimat leaders, when they made important decisions with economic consequences?

Third, what happened to the traditional value pattern of Ottoman society after the modernisation process started? In particular, did the behaviour of individuals, whether as producers or consumers, change with reference to economics, and if so how and when?

My view is that motivations and attitudes, both as regards government leaders and individuals in general, were very slow in changing during the first phase of modernisation. However, the impact of modernisation on economic behaviour began to be felt, at the government as well as the individual level, at the turn of the century. The question is how and when did modernisation affect thinking and acting over economic issues?

I shall argue that there were three principal factors behind the changes in attitudes which finally made possible the emergence of economic growth towards the turn of the century:

— A new governmental approach towards public finance and economic development, partly brought about by the obligation to repay past borrowings, by the lessons of the past and by foreign influence, mostly emanating from the Public Debt Administration.

— Growing changes in production and consumption patterns in Ottoman society, which came about as the results of accumulating modernisation.

— Large increases in the resources allocated to economic development, following the stability in financial and monetary conditions introduced in 1880.

These developments have led me to divide the period between 1800 and 1914 into two sub - periods. The first phase of modernisation was marked by the continuation of traditional attitudes. At the government level, fiscal objectives prevailed over economic considerations, while there was little change in traditional production and consumption patterns.

Neither economic growth in the modern sense nor economic stagnation or decline took place in this early phase of modernisation. Certain events of major economic significance did occur in this period, but their potential for change (either growth or decline) was not realized. A convenient date for the end of the first sub-period is 1880, the moment when the shock of crushing military defeat at the hands of Russia and of the disastrous policy of foreign borrowing led to the establishment at Istanbul of the International Public Debt Administration, and produced serious reconsideration by successive Ottoman governments of their economic and financial policies and institutions.

The long period of peace and of absolutist rule by Adbülhamid from 1878 to 1908 constituted the political background of the period. This was followed by a short period of constitutional monarchy, introduced by the Union and Progress Committee, in 1908. In the economic field, a key element of growth lay in the financial and monetary stability that was maintained throughout 1880-1914. Many signs of changes in economic motivation, at both government and private levels, then came to the surface.

In the paper, the two sub-periods distinguished above will be examined successively. For the first sub-period, quantitative data are practically non-existent, and therefore, the approach is qualitative and descriptive. More quantitative data are available for the second sub-period, both at the aggregate level (e.g. national income) and at the sectorial and micro-levels, (production, consumption, and foreign trade). Since the main purpose of the paper is to show the emergence of economic growth around the turn of the century, only aggregate data, mostly derived from national income estimates prepared by Vedat Eldem for his book on the economy of the Empire during the XIXth century are used as evidence of growth.<sup>3</sup>

## II

### *1800-1880*

To begin with, it is necessary to describe shortly the political situation facing the Tanzimat statesmen and the politico-strategic constraints under which they had operate, in internal affairs and in external relations.

The initial decisions on the need for Westernisation were taken in the early XIXth century, by sultans such as Selim III and Mahmud II, as desperate attempts to save the Ottoman State's independence and territorial integrity, in the face of growing threats coming from Western Europe and Russia. The move towards reform was also intended to stave off pressures from growing internal uprisings in the Balkans and from the grave challenge presented by the increasing military and economic might of Egypt which became an autonomous Ottoman province under the governorship of Mehmet Ali, in 1805. The only way in which the Empire's integrity could have been saved

<sup>3</sup> VEDAT ELDEM, *Osmanlı İmparatorluğunun İktisadî Şartları Hakkında Bir Teskiik*. İ Bankası Kültür Yayını, Ankara, 1970.

was to establish a modern military force, which would be able to stand up to external as well as internal threats.

Reliance upon the indisciplined, old fashioned, ill-equipped but still politically very powerful Janissary Corps had become impossible.

Therefore, it had to be replaced by a completely new, freshly recruited army, led by new officers and trained and equipped on European lines. To bring about this transformation was a formidable task, not only in itself, but also for cultural, political and economic reasons. Until such time as the new army had been established and proved itself on the battlefields, the state remained in mortal peril. This is why the Ottoman Empire, during the XIXth century was so often in need of political and military support from one of the Great Powers and why the Tanzimat statesmen had to engage continuously in the balancing game of diplomacy between Great Powers.

The military challenges directed at the modernizing Ottoman State are rightly emphasized as explicit constraints upon economic change by Charles Issawi. He observes that, to counter these threats, the Ottoman government found itself almost continually at war between 1800 and 1880. He adds that the sheer cost of these conflicts goes far to explain why Turkey made relatively little economic progress during the period.<sup>4</sup>

The Tanzimat reforms were pursued earnestly by a small group of men around sultans such as Mahmud II, Abdülmecit and Abdülaziz, and began in the military sector. The Tanzimat had to be imposed from above, upon a largely unwilling, even hostile Moslem population and amidst the doubts and suspicions of a large part of the Ottoman elite. The reforms, which subsequently inevitably spread from the military sector into other fields, thus proceeded under extremely difficult internal and external political and cultural conditions. The reforms also gave rise to large financial needs, in an economy where finances remained very tight. It is necessary to keep

<sup>4</sup> CHARLES ISSAWI, *op. cit.* pp. 3-4.

in mind these political and financial constraints when evaluating economic decision making by Tanzimat leaders.

Values, institutions and psychological attitudes inherited from the past prevailed more or less unchanged in the first phase of modernisation throughout the XIXth century.

The Ottoman state's attitude towards issues and policies with direct or indirect economic connotations, had historically always been one of indifference and even neglect. Over long centuries, no governmental initiative, no grand policy design in the fields of commerce and economy had occurred, such as the European policies designed to achieve a positive balance of trade, an accumulation of precious metals, the encouragement of local production in industry, the promotion of exports and national shipping, on mercantilist lines. No economic Ottoman literature exists on these subjects, which seem to have been hardly discussed by the Ottomans until the late XIXth century. Apart from the fact that Ottoman agriculture, industry and commerce were principally geared to satisfying the existing consumption needs, the main objective of the state remained purely fiscal, namely the need to raise sufficient resources for the expenditures of the Army and of the Palace. The interest of society as a whole was taken to be identical with the interest of the state. No thought seems to have been given to the problem of expanding the basis of the economy. As long as the economic organisation of society continued to meet the unchanged needs of the population, and to supply enough revenue for the central government, all was well. The granting of capitulations to European powers in the XVIth century and later on, was mainly motivated by the fiscal objective of increasing central revenues thorough foreign trade.

Did government attitudes and policies in the economic field change at all after the early initiation of the Tanzimat reforms? It appears that until the 1860's, little recognition of the fact that government policies in tariffs, taxation and expenditure influenced the global economy and the well-being of Ottoman subject had emerged among government leaders. Indeed the idea that the development of the

economy in general was a worthwhile objective of government policy was hardly entertained.

Furthermore, we observe that economic ideas were quite late in reaching the Ottoman modernizers. Only after the 1860's did ideas such as mercantilist and protectionist trade policies or the free trade model of Adam Smith or policies directed at developing the national economy by letting infant industries grow (F. List), begin to reach Turkish intellectuals and statesmen, mostly through translations of French liberals, such as Bastiat.<sup>5</sup>

In view of this neglect and even ignorance of economics, it is strange that modern Turkish writers such as Doğan Avcioğlu severely criticise Reşit Paşa for having chosen a free-trade model for the Empire in 1838, when he signed the Anglo-Turkish commercial convention, instead of going for a so-called autarkic protectionist national development policy<sup>6</sup>. Avcioğlu alleges that Reşit Paşa signed the convention because he had been convinced by British negotiators of the benefits the free trade policy would bring to the Turkish economy. To posit that a main motive of Reşit Paşa in signing the 1838 convention had been economic is to ignore the indifference to economics of statesmen, whose principal objective in 1838 was to ward off the peril posed by Mehmet Ali to the integrity of the Empire .

Avcioğlu assumes that Reşit Paşa possessed enough economic sophistication to weigh the effects of alternative economic policies on the development of the Ottoman economy. These assumptions are not confirmed by what we know about the frame of mind of Tanzimat statesmen, which continued to be tradition-bound until late in the century.

In this context, it has to be stressed again that the Tanzimat modernisation had been imposed from above upon an unwilling population attached to its religion and traditional way of life and loath to give up its age-old beliefs and values. The Ottomans had been liv-

<sup>5</sup> AHMET GÜNER SAYAR, *İktisadî Fikirlerin Yayılma Teorisi ve Klasik İktisat Düşüncesinin Osmanlı Türkiyesine Girişi ve Ayılışı (1789-1880)* Mimeographed, İstanbul 1980.

<sup>6</sup> DOĞAN AVCIOĞLU, *Türkiye'nin Düzeni, Bilgi Yayınevi, Ankara 1966.*

ing for centuries in a closed society, whose ideal types were the warrior, the man of religion and the bureaucrat, rather than the merchant or the entrepreneur.

Ahmet Güner Sayar, in his unpublished thesis<sup>7</sup> suggests that the clearest line dividing the Western from the Oriental view of the world lay in their approach to the individual. While in the Western world after the Renaissance, the individual reigns supreme in the fields of science, art, politics, and economics, the essence of Oriental, more particularly of Ottoman civilisation, lay in its almost total rejection and neglect of the individual. So it came about that during the course of centuries little personal wealth was accumulated in the Ottoman economy through individual initiative and the little that was accumulated was always under the threat of confiscation by the state.

An important corollary of the rejection of the individual in Ottoman society was that individual motivations in the fields of production, consumption and of capital formation, remained weak. Production in industry and the services was not dictated by individual profit motive. It was organized from above by collective bodies (the guilds and the government). The unchanged individual needs and life style of the Ottomans meant that individual consumption patterns remained largely unchanged in urban and rural areas. Finally, motivation for individual capital formation always remained very weak. Wealth accumulation was always a risky affair in Ottoman society. Sayar, in his thesis, mentions that a French economist, E. de Laveleye, writing as late as 1877, observed that Turks had absolutely no notion about the process of capital formation.

This set of values continued largely unchanged throughout the early westernisation period, until the late XIXth century. As regards institutional patterns, the prevailing economic organisation in agriculture and industry continued largely unchanged well into the late XIXth century. Agricultural production on state land which constituted the majority of land-holding, was governed by laws and

<sup>7</sup> AHMET GÜNER SAYAR. *op. cit.*

regulations dating back to the *timar* system of supervision. In handicrafts, the guild organisations only began breaking down in the late XIXth century, to be slowly replaced by free businessmen and industrialists. Significantly, the formal repeal of the guild system came only very late by legislation, in 1913. Thus, traditional collective and imposed decision-making continued to dominate economic life until late in the XIXth century.

Probing further into the complex question of value-patterns, Sayar, in his thesis refers to another dividing line between the Western and the Ottoman world, which helps to explain the pervasive lack of technological change and of economic dynamism in the Ottoman society. He talks about the difference in the attitudes of Westerners and of Orientals towards physical matter and material objects. While the tendency in the West was to break up matter with the objective of investigating it, the tendency in the Orient was to leave it alone and accept it as it is. This relation towards matter provides another clue to the failures of the Ottoman man in practical life as well as in scientific and technological activities. Sayar further observes that these attitudes long remained unchanged despite the modernisation movement by the Tanzimat.<sup>8</sup> We conclude therefore that neither at the government level, nor at the individual level, do we observe any fundamental changes in the values patterns of society during most of the XIXth century.

When, in a society, the underlying motivations of the government, on one side, and of private individuals, on the other, remain far removed from concern for the prosperity of the economy and for the maximisation of individual income and welfare, cumulative economic growth in the modern sense seems inconceivable because the process of cumulative growth depends, among other things, on the existence of economic motivations and activities by the government and in the population and on their continued interaction.

Simon Kuznets has defined «modern economic growth» as a long-term rise in the capacity to supply increasingly diverse

<sup>8</sup> AMHET GÜNER SAYAR, *op. cit.*, p. 187

economic goods to the population, this growing capacity being based on advancing technology and on the institutional and ideological adjustments that it demands.»<sup>9</sup> Apart from emphasizing the crucial role of advancing technology, Kuznets has pointed out the necessity of institutional and ideological adjustments, for modern economic growth to take place at all.

Neither of these three components of growth are to be found in the economy of the Ottoman Empire during most of the XIXth century. My conclusion is that under such conditions, economic growth was not only impossible but inconceivable, within the economy of the Empire in this period. To posit that economic development would have been possible in the XIXth century if an alternative policy to free trade had been followed, as Turkish Marxist writers suggest, is a piece of wishful thinking that is devoid of historical foundation.

So, when the necessary conditions for economic growth are absent, as indeed they were in Turkey during the XIXth century, events with potentially important economic connotations could well take place and have some limited effects, but they were not able, by themselves, to generate a comprehensive and global process of economic growth because no economic diffusion was possible. These events may have limited impact upon some sectors of the economy, but this impact was not propagated throughout the economy.

This was the case with certain important events which took place in the Ottoman Empire during the XIXth century and which are discussed below. These events were unable, by themselves, to trigger an economic take-off, leading to growth and development, in the sense of Walt Rostow.

To understand the failure of early modernisation to produce economic change, it is interesting to go over briefly the events with potential economic repercussion, which occurred in the Empire during the Tanzimat. I have in mind such landmarks as the signature of the Anglo-Turkish commercial convention in 1838, the govern-

<sup>9</sup> SIMON KUZNETS, *Modern Economic Growth: Findings and Reflections*, in "American Economic Review", June 1973.

ment's experiment with industrialisation, carried out during the 1840's by Abdülmecid, the experiment with paper money, within the silver monetary system established in 1840, the policy of government borrowing from Western Europe and the construction of the first railway lines in the 1850's and 1860's. The important thing to observe is that no government economic thinking, as such, lay behind any of these events. They were motivated either by political considerations (the 1838 Convention), or by fiscalist preoccupations (the paper money experiment and the resort to foreign indebtedness) or by prestige arguments (the industrial drive of Sultan Mecid). Moreover, the economic and social milieu within which these events took place was unable to propagate and diffuse the economic stimuli which they could have otherwise engendered.

To show clearly the lack of government economic thinking and the absence of an economic milieu suitable to the diffusion of economic stimuli, I review these different events in turn, by examining the motivations behind them and I touch upon their eventual outcome.

I leave aside here detailed descriptions, since adequate accounts and analysis of these events are available elsewhere. Thus, the Anglo-Turkish commercial convention of 1838 is discussed at length by Professor M. Kütükoğlu and by F. E. Bailey.<sup>10</sup> The Ottoman attempt at industrialisation during the 1840's has been discussed both by Edward Clark and by the present author in a previous paper<sup>11</sup>. The Tanzimat experiment with paper money has been analyzed by Roderic Davison<sup>12</sup>. The emergence and development of foreign borrowing between the Crimean War and the setting up of the Public Administration in 1881 are

<sup>10</sup> SEE M. KÜTÜKOĞLU, 'OSMANLI-İNGELİZ İKTİSADİ MÜNASEBETLERİ' in two volumes, Vol. I; Vol. II; F.E. BAILEY, *British Policy and the Turkish Reform Movement*. Howard Fertig, New York, 1970.

<sup>11</sup> SEE EDWARD CLARK, *The Ottoman Industrial Revolution*, in "International Journal of Middle East Studies", Vol. V, No. 1 and OSMAN OKYAR, *The Role of the State in the Economic Life of The Ottoman Empire in the 19th Century*, Asian and African Studies, Vol. XIV, No. 2, July 1980.

<sup>12</sup> SEE RODERIC DAVISON, *The Ottoman Experiment with Paper Money*, in "Social and Economic History of Turkey (1071-1914)," Osman Okyar and Halil İnalcik Editors, Hacettepe University, Mereksan Press, Ankara, 1980.

reviewed at length by Blaisdell and Morawitz<sup>13</sup>. Finally, the beginnings of railway construction in Turkey are described in books by Vedat Eldem and Morawitz. (14)

The Anglo-Turkish commercial convention of 1838 was obviously pressed upon an Empire exposed to the mortal peril of Egyptian armies under Mehmet Ali. Apart from political considerations, the British negotiators were motivated by economic factors, namely the securing of a large Middle East export market for the increasing industrial products manufactured in Britain. On the other hand, the principal motivation of the Ottoman Government in signing the convention was political and strategic, namely to gain British support in forcing Mehmet Ali to give up his threat to the Empire and return back to Egypt. Further, the Ottomans and the British were in agreement over an additional politico-economic benefit of the convention, namely, the enforcement of free trade on Egypt, the consequence of which would be the eventual destruction of the industrial-mercantilist structure which constituted the backbone of Mehmet Ali's economic and military power.

Did the Ottomans have important economic reasons for accepting free trade, as it has recently been alleged by Avciöglü and other Turkish writers? This is a moot and speculative point, as I have stated above. There are doubts about Reşit Paşa's concern for the development of the economy, secondly, about his possession of sufficient economic knowledge to enable him to weigh alternative economic policies. From what is known about the negotiations which led to the convention, it appears that the Ottomans, in addition to their overriding political interest in defeating Mehmet Ali, also gave some thought to the possible fiscal consequences of the convention. Accepting a low rate of duty on British imports met with little opposition from the Turks, who were, however, very reluctant to give up certain monopoly rights on foreign trade, especially on exports, which

<sup>13</sup> DONALD BLAISDELL, *European Financial Control in the Ottoman Empire*, AMS Press, New York, 1966; CHARLES MORAWITZ, *Die Türkei im Spiegel ihrer Finanzen*, Carl Heymanns Verlag, Berlin, 1903.

<sup>14</sup> VEDAT ELDEM, *Osmanlı İmparatorluğunun İktisadî Şartları Hakkında bir Teskiik*, İş Bankası Kültür Yayını, Ankara, 1970; C. Morawitz, *op. cit.* Paris, 1903.

for long provided a source of revenue to the Treasury. Also, for purely fiscal considerations, the Ottomans insisted on high rates of duty for exports, a measure which brought about a structure of tariffs which was quite perverse from the point of view of economic development<sup>15</sup>. It was only twenty years later, when it dawned upon Turkish statesmen that the most harmful side of the agreement was that its terms were only renewable for successive periods of 7 years, that the Ottoman government's sovereign rights over tariffs policy were abrogated.

What was the impact of the convention on foreign trade? Tentative estimates prepared by Issawi are available for the increase in volume and value of foreign trade between the 1840's and the period 1873-77. The Issawi estimates for changes in the value of total foreign trade for the whole Empire, suggest that imports increased around 2.8 times from 7.8 million to 22.3 million O.L. while exports increased also 2.8 times, from 5.8 million to 16.4 million, during the above period<sup>16</sup>.

No doubt the main factor behind the increase in foreign trade was the introduction of free trade in 1838, which opened the Ottoman market to European merchants. The principal item in Ottoman imports was cotton textiles, followed, by colonial goods, such as coffee, tea and sugar. The principal export items were agricultural products. In the early forties, dyestuffs such as madder, yellow berries and gallnuts were the leading export items, but their importance decreased over time and they were replaced by tobacco, silk, cotton, dried fruits and opium.

What effects did the opening of the Ottoman economy to free trade have on the global economic development in the Empire? Did the gradual replacement of local artisan goods (especially cotton textiles) by machine-made imports spell the ruin of the Ottoman economy, through the destruction of the traditional handicrafts sector? Or did the increase in foreign trade, after 1838, constitute the beginning of a process of export-led economic development, such as was the case for a number of countries (Russia, the Scandinavian

<sup>15</sup> FRANK BAILEY, *op. cit.*, pp. 122 to 126.

<sup>16</sup> CHARLES ISSAWI, *op. cit.*, p. 80 and following.

states) on the periphery of Europe in the XIXth century? Or finally, did free trade have little impact on the development of the Ottoman economy as a whole?

The disappearance of the handicrafts sector, far from spelling economic ruin was the prerequisite for the industrialisation of the economy on Western lines. The Ottoman economy was not yet ready for an economic take-off generated by exports, for the reason I have outlined above. So, the third case was largely what occurred, I would suggest, in the Ottoman economy between 1840 and 1880, since the major factors and conditions which might have produced economic development were non-existent, while the disappearance of handicrafts, especially in the interior, was a very slow affair.

The Ottoman economy in the XIXth century showed strong similarities with many other southern European economies on the periphery of Europe, which were also exposed to the challenge of industrialisation, and whose reactions have been analyzed by two Hungarian economists, I. T. Berend and G. Ranki, in an interesting article entitled 'Foreign Trade and the Industrialisation of the European Periphery' published in the *Journal of European Economic History*<sup>17</sup>. The authors examine the effects exercised by West European industrialized countries upon the more backward countries in the European periphery through 'foreign influence' (a concept which includes foreign trade, foreign investment and political pressure). They ask themselves whether or not foreign influence brought about a process of economic growth in the countries of the periphery. The main finding is that 'the reaction of the various countries to the challenge of the Industrial Revolution can be placed — to use M. Leibenstein's terminology — along a continuum ranging from (zero sum), in the case of economies incapable of change, to (positive sum), in the case of economies where change resulted in the growth of productive sectors and in the growth of the national economy'<sup>18</sup>.

The authors examine in detail economic transformations in the European periphery, from the Scandinavian countries and Russia, down to the Balkans, Italy and the Iberian peninsula. On one hand,

<sup>16</sup> CHARLES ISSAWI, *op. cit.*, p. 80 and following.

(17) I. T. BEREND and G. RANKI, 'Foreign Trade and the Industrialisation of the European Periphery' in *Journal of European Economic History*, Vol. 9, No. 3, Rome.

(18) I. T. BEREND and G. RANKI, *op. cit.*, pp. 582 to 584.

there is the case of the Balkans (Greece, Serbia, Bulgaria, and Romania) where, although there was substantial increase in foreign trade and foreign investments following the Western challenge, there occurred neither real economic growth, nor significant transformations in the economy. On the other hand, in the cases of the Scandinavian countries and in Russia, Italy and Hungary, foreign influence in the form of foreign trade not only gave a boost to the economy, but there was also a sufficient volume of foreign capital investment to bring about economic development, to such a degree that the independent internal forces of change could also become effective<sup>19</sup>.

The authors, in the conclusion to their article, echo my own judgement on the impossibility of economic growth in the Ottoman Empire during 1800-1880. Important as the nature and potential of foreign trade and the volume and use of foreign capital imports were for the development of the European periphery, it was in government policy that we must seek the clue to a country's ability to react to the challenge of the industrialized West. Economic growth in the form of differentiation, substitution and absolute gain could become a cumulative process *only where there existed the internal structure, the institutions and the adaptability adequate to channel these resources in the directions* that best served the country's interests<sup>20</sup>.

During the early modernisation period (1800-1880), Ottoman governments were largely unaware of the problems of economic development. In addition, economic motivations in the society and the internal socio-economic institutions of society remained unchanged. Therefore, it proved impossible to channel the opportunities provided by growing foreign trade and investments into a cumulative growth process.

Thus, the opening of the Ottoman economy to free trade and the subsequent expansion of foreign trade caused neither the destruction of the Ottoman economy nor did it bring about cumulative

(19) I. T. BEREND and G. RANKI, *op. cit.*, p. 575, my italics.

(20) I. BEREND and G. RANKI, *op. cit.*, p. 584, my own italics.

economic growth. The process remained a zero sum game not only with regard to free trade but also in the context of the other events with economic connotations to be reviewed below. This view also seems to be implicitly accepted by Charles Issawi, who after reviewing the expansion of foreign trade between the 1840's and 1873-77, remarks that the large increase in Turkey's foreign trade was almost certainly bigger than the expansion of its GNP during that period. He goes on to suggest that insufficiency of foreign demand for Turkish products and the limited expansion in the Turkish capacity to import did not constitute the major constraints on Turkey's economic growth<sup>21</sup>. Whether or not any expansion of GNP occurred at all between 1840-1877 will never become clear, since no statistics exist, but this point does not impair the truth of Issawi's view as regards the major constraints on economic growth, between 1840 and 1873-77.

There were a number of significant events which occurred between 1840 and 1880, and which might have had major economic consequences, but which failed in their time to bring about economic growth, owing to the nature of government policy and to the conditions of the Ottoman economy.

The first such event concerns the attempt by the Ottoman government in the 1840's to construct and operate a number of factories, using mechanical power, around Istanbul, in the fields of armaments, shoes, glass and paper, with the help of European engineers and skilled workers. The industrialisation programme undertaken by Sultan Abdülmecid, soon after his accession to the throne, caused Edward Clark, in an article on the Ottoman industrialisation experiment, to wonder why such a decision was taken at all, so soon after the signature in 1838 of the Commercial Convention, which deprived the state of the possibility of protecting local industry from foreign competition<sup>21</sup>. I suggested in a later article on the role of the state in economic life of the Ottoman Empire in the XIXth century that the above ap-

<sup>21</sup> CHARLES ISSAWI, *op. cit.* page 76.

<sup>22</sup> EDWARD CLARK, *op. cit.*

parent paradox can be explained by the lack of any understanding among Ottoman statesmen of basic economic inter-relations (23).

Why then did Sultran Mecid decide to launch a government industrialisation project that was doomed to failure? We can only speculate, but the most plausible explanation lies in his genuine belief in the possibility of setting up in the Ottoman economy a local industry on European lines, primarily designed to meet the needs of the new modern Turkish army. Further, the desire to prove to Europe the capacity of Westernizing Ottomans to emulate European industry, and probably the determination not to remain behind the achievements of the arch-rival of the Empire, Mehmet Ali of Egypt, must also have played some part in the decision to industrialize, taken in 1840. Since his accession to the governorship of Egypt, Mehmet Ali had pursued a successful industrialisation policy within the framework of a mercantilist-protectionist economic policy, covering agriculture, taxation and the control of foreign trade<sup>24</sup>. The difference between the well-conceived programme of Mehmet Ali, who with his French advisers had taken into account the supply of inputs, including finance, to new industrial units and had also thought about the marketing of Egyptian industrial products, and the improvised Ottoman experiment, which totally neglected such key factors as inter-industry relations, the necessity for protection and problems of marketing, is quite striking. It is no surprise that the Ottoman experiment ended in almost total failure. Within a few years, most of the new factories had to close down, except for an armaments plant and two textile plants producing woollen and cotton cloth for the Army.

The experiment with paper money and the policy of foreign indebtedness were connected with finance and related to the government's need to raise additional resources to meet growing expenditures, which could not be covered by tax revenues. In 1837,

<sup>23</sup> OSMAN OKYAR, *The Role of the State in the Economic Life of the Ottoman Empire in the 19th Century*, *op. cit.* 152.

<sup>24</sup> For an account of Mehmet Ali's economic policy, see CHARLES ISSAWI, *The Economic History of the Middle East, 1800-1914*, The University of Chicago Press, 1966.

Sultan Mahmut II had initiated a process of taxation reform, designed to replace the old Ottoman taxes with new taxes based on individual ability to pay. Tax reform had a long and tortuous history, since many obstacles, above all the determination of wealth and income, stood in the way, with the result that the modern system of assessment and collection was not yet fully in place by the beginning of the First World War.<sup>25</sup> In addition to the slow increase in tax yields, another problem of financial control sprang from the lack of yearly government budgets, indicating anticipated and realised expenditures and revenues. The move towards setting up modern budgets came only after 1880.

Thus, during the period 1840-1880, increases in tax revenues remained clearly insufficient to meet the many demands made on the Treasury by the various moves towards modernisation in the military and civilian fields. Furthermore, the government had little knowledge of annual tax revenues, and its control over expenditures was very shaky. Under such uncertain financial conditions, the government began to look elsewhere than taxes to lay its hands on additional financial resources. The ill-fated experiment with paper money begun in the 1840's and the policy of foreign indebtedness initiated in the 1850's, had their origin in the desperate financial needs of the government and were not, in any way, the products of long-term economic thinking, designed to support the growth of commercial activity or to develop the existing natural resources of the Empire.

As Davison has observed, paper money was first issued in 1840, because of a grave Treasury crisis, probably resulting from the failure to collect the land tax directly through government officials, instead of the traditional form of tax-farming<sup>26</sup>. In the initial years, interest was paid on the paper bills issued and the quantities put into circulation remained limited. This ensured the initial success of the

<sup>25</sup> For a detailed account of taxation reforms, see STANFORD SHAW, *The Nineteenth Century Ottoman Reforms and Revenue System*, in "International Journal of Middle East Studies", Vol. 6, Oct 1975, No. 4.

<sup>26</sup> RODERIC DAVISON, *op. cit.*, p. 243.

operation, as deduced from the parity of exchange between paper bills and metallic money. However, in the late 1840's, larger quantities of paper money, this time with no interest attached, began to be issued, leading to a depreciation of paper bills against gold and silver. Treasury needs during the Crimean War in 1853-54 led to even larger issues of paper money and to sharper depreciation of paper bills. The result was chaos in markets and in commercial activity. In 1858, the amount of paper money in circulation had reached the equivalent of 6 million Ottoman gold pounds, approaching the value of metallic money in circulation<sup>27</sup>.

Chaos was such that the government decided to give up and retire paper money against the payment of gold or silver coins. However, several government attempts to retire paper money, through raising foreign loans or through domestic voluntary contributions and levies from the people, proved unsuccessful. Finally in 1862, the government had to ask the newly established foreign Ottoman Bank to help it with this operation, which was carried out from the proceeds of a foreign loan obtained in the London market.

The idea of obtaining additional resources through borrowing in foreign money markets first occurred to the Grand Vizier Ressit Passa, in 1850. However, the loan agreement he signed with British and French bankers was subsequently cancelled by Sultan Mecit, apparently out of fear that the foreign loan would be accompanied by foreign intervention. But the huge need for money created by the Crimean War forced the government to resort to foreign loans in 1853. The door for the policy of foreign borrowing being thus opened, subsequent governments fell to the temptation of using this seemingly easy way to obtain further resources. Fresh loans were often used to repay principal and interest on past debts, but increasingly higher discounts on nominal value had to be accepted by Ottoman govern-

<sup>27</sup> CHARLES MORAWITZ, *op. cit.*, p. 38 and following.

ments, whose credit rating in London and Paris kept on falling.

The peak point was reached in 1874 when the nominal debt reached 200 million sterling. The annual debt burden thus created for the Ottoman Treasury exceeded half of estimated annual government expenditure. At this point the Ottomans started defaulting on their obligations, since further borrowing had become impossible and internal resources were not available<sup>28</sup>.

Default continued throughout the period 1874-1881, a period marked by political instability within the Empire and by the disastrous Russo-Turkish war of 1877-8. In 1881, the question of the debts was finally settled through a consolidation agreement between foreign bond holders and the Ottoman government and the establishment of a Public Debt Administration in Istanbul.

What was the outcome of the policy of foreign borrowing and how should it be evaluated from the economic standpoint? We have no precise knowledge as to how the proceeds from foreign loans were used during the period 1853-1874. It seems clear that they were largely used for current expenditures in the military and civilian fields. The only explicit expenditure for investment was the proceeds from the foreign loan of around 10 million sterling contracted in 1870 for the construction of the railway linking Istanbul with the European railway system. So, it appears that investment expenditure amounted to only around 8 per cent of the *de facto* resources (around 120 millions sterling) which came into the hands of Ottoman governments, from total borrowing of a nominal value of 219 millions sterling, according to figures of the consolidation agreement reached in 1881.

The point which surprises some Western observers is that although possessing considerable natural resources, the Ottoman governments should not have made more use of foreign resources for their development<sup>29</sup>. From a strictly economic point of view, it is justifiable to consider Ottoman foreign indebtedness as a wasted and unproductive experiment since the proceeds of such loans were not used to

<sup>28</sup> REFI SUKRO, SUULA. *Tanzimat Devrinde Istikrazlar*, in 'Tanzimat', (Istanbul, Maarif Vekâleti 1940) reproduced in English by CHARLES ISSAWI in *The Economic History of Turkey*, *op. cit.*

<sup>29</sup> D. BLAISDELL, *op. cit.*, p. 74.

create assets which would generate returns to enable the repayment of loans in the future. In addition, the Ottoman dynasty, specially under the reign of Sultan Abdülaziz, was certainly guilty of extravagance. Napoleon III is reported as having criticised the case of an Ottoman prince ordering a gold table service with plates studded with diamonds in Paris, to the Foreign Minister Fuat Paşa, who mentioned this extravagance to the Grand Vizier Reşit Paşa. It is reported that Reşit Paşa found enough courage to write personally to the Sultan about Napoleon's remark and to observe that such conduct, if continued, would bring about the ruin of the state. So it is not surprising that the reckless foreign indebtedness has been harshly condemned by many observers. Indeed, Z. Y. Hershlag has described the whole episode as a 'case-study in guilt and punishment'<sup>30</sup>.

However, is it not possible to view the attempt of the Tanzimat leaders to obtain foreign resources with the objective of meeting government current expenditures which could not have been financed otherwise, as a desperate move to finance the modernisation programme of the Tanzimat in the military and civilian fields? Is it not true to think that the defence of the Empire required extraordinary expenditures for the Army and the Navy, which could not be met out of ordinary revenue? How would it have been possible to create the new civilian administration and the infrastructure required for modernisation (schools, other buildings, communications, etc.) out of tax revenues which increased desperately slowly?

As I have tried to explain above, the principal objectives of the Tanzimat leaders were political and strategic and had very little to do with economics. They wanted above all to preserve the independence of the state and to modernize the army and the administration rapidly enough to meet the military and political challenges of the great European powers. If foreign indebtedness is considered in this perspective, there is a case for qualifying our judgement and for moderating the wholesale condemnation of this policy.

<sup>30</sup> Z. Y. HERSHLAG, *The Late Ottoman Finances, A Case-Study in Guilt and Punishment in Social and Economic History of Turkey (1071-1920)* EDITORS: OSMAN OKYAR and HALL İNALCIK, Meteksan Press, Ankara 1980, p. 297.

The policy which finally led to bankruptcy in the 1870's remains wrong from strictly economic and financial criteria, but were not Tanzimat leaders largely ignorant of the economic and financial sophistication which might have helped them to act more wisely?

The last major event with possible economic connotations which occurred between 1840 and 1880, concerns the beginnings of railway construction in the Empire. Since land transport facilities in the Empire had been traditionally poor for centuries past<sup>31</sup>, the principal means of long-distance land transport being camel caravans, the construction of railway lines linking the coasts with the interior of the country had certain obvious economic potentialities.

The first initiatives for building relatively short commercial railway lines from ports such as Izmir on the Aegean coast and Varna and Constantza on the Black Sea coast towards the hinterland, came from British firms wishing to take advantage of the Empire's growing foreign trade and traffic. The lines built on the Aegean and the Black Sea coasts between 1856 and 1872 had a total length of only some 500 kilometres and were financed by foreign capital.

The other railway line whose construction began in 1872 was a different matter, since its aim was to link the capital, Istanbul, with the European provinces of the Empire and with the European railway system. Here the government's objectives were political, administrative and strategic, rather than economic. The Oriental Railway company, formed by Baron Hirsch, took over the construction and operation of the line, with the help of a 10 million sterling loan and a kilometric guaranty of revenue, given by the Ottoman government, per kilometre of railway. The link with the European system took many years to be completed and operations had to be subsidized by the government for a very long time.

The effects of these railways upon the economy remained, however, limited and localized. The land transport system of the country was only fundamentally changed with the construction of the lengthy Anatolian railways, at the end of the XIXth century.

<sup>31</sup> For an account of land transport conditions in the Empire before the railways, see CHARLES ISSAWI, *The Economic History of Turkey*, *op. cit.* p. 146 and following.

### III

#### *1880-1914*

No significant economic change took place during the initial modernisation period but after 1880 the economic scene showed definite signs of transformation. What were the key factors behind economic growth between 1880-1914? Early modernisation had remained a limited and restricted affair, but this on-going process continued to gain strength in many ways under the long autocratic rule of Abdülhamid and under the constitutional monarchy introduced in 1908 by the Committee for Union and Progress. With the passage of time, modernisation inevitably began to spill over into other sectors of society, in particular into the economy, and into larger groups in the population.

Apart from general spill-over effects, there were specific developments in the political field, as well as in the economy itself, between 1880-1914, which constituted factors favourable to economic growth. The authoritarian Hamidian regime, lasting 30 years down to 1908, and the more liberal regime which succeeded it, successfully maintained law and order and internal stability until 1914, in contrast to the political turmoil ruling in the 1870's. In foreign relations, major military conflicts were avoided until the Balkan War of 1912. Abdülhamid, while leaning towards the growing power of Imperial Germany to replace Britain as the traditional counter-weight to Russian expansive designs over the Middle East, managed to keep intact the territorial integrity of the Empire, through a precarious balancing act between major European powers. The Unionists, who took over political responsibility in 1908, were also keen to uphold the multi-national identity of the Empire. In their initial enthusiasm for freedom of thought and political equality, they had tried to give new life to the old concept of Ottomanism, through new political institutions granting equality of rights to all the communities of the Empire. But this was in vain. The more deeply-rooted nationalist

centrifugal forces in the Empire finally won the upper hand in the disastrous Balkan War of 1912, when the Empire lost almost all its European possessions to the new national Balkan states. All the same, the avoidance of major wars between 1880 and 1912 reduced the need for extraordinary military expenditures and contributed to moderate military demands upon the budget. Thus, as a whole, the political and military situation between 1880-1912 constituted a background favourable to economic change.

Other developments in the 1880-1914 period, were of more direct relevance to economic change. They can be classified under the three following headings:

(1) In the crucial field of governments' attitudes and policies over economic issues, we note that the age-old neglect and indifference towards these questions fade away, to make room for a new awareness of and concern with economic development.

(2) The collective nature of economic decisions which had long characterized the Ottoman command economy, were replaced slowly but surely by individualistic motivations and enterprise, at the producer and at the consumer levels. This complex psychological and institutional process could be said to be the combined result of the many spill-over affects of modernisation and of ongoing institutional and legal changes.

(3) Finally, we observe that financial and monetary stability replaced the previous chaotic financial and monetary situation, produced by reckless experiments with paper money and with foreign borrowing. In the 1880's the daunting problem for the future of the economy was related to the transfer abroad of substantial resources for the repayment of debts. For a country which wanted to develop and was therefore in need of additional foreign resources, such an outflow of resources, if not accompanied by new inflows, in the form of credits or investments, would have meant economic disaster. In the solution which eventually came about the role of 'foreign influence' exercised through the Public Debt Council was crucial.

The three developments noted above, taken together, established a new economic climate and new basic conditions, which eventually made possible the emergence of economic growth. I shall survey below, in more detail, each of these developments in turn and try briefly to evaluate their role. Subsequently, I shall look at the trends in major macro-economic aggregates, national income, investment and population, after the turn of the century, to present some evidence about the beginning of modern economic growth.

Let us take up first the question of changes in government attitudes. Although very indistinctly expressed until the end of the XIXth century, the ultimate goal of Ottoman modernisation in the economic field was the development of a western system of free enterprise. The new western type commercial legislation accepted soon after the Tanzimat, the Land Code of 1858 which finally opened the way to the selling and buying of what had been previously land under state ownership, the series of laws to encourage the establishment of private industrial units using machinery, the first of which was passed already in 1873, constituted major legal and institutional steps in the direction of a western economy. Alongside the slow evolution toward a western legal framework, we can already detect signs, in 1881, of an emerging awareness in government circles of economic interrelationships, exemplified by the attempt to change the perverse pattern of customs duties established in 1838. This took the form of concluding new trade agreements with all European states, with the object of raising import duties to eight per cent, while decreasing export duties, by yearly successive reductions of one per cent, to the level of one per cent.

However, these early moves were only straws in the wind with little immediate effects. Prior to the 1880's, no global view about future economic development of the economy, no consistent steps in the field of money and public finance had emerged.

Beginning in the 1880's, we observe the introduction of specific moves and policies which constituted, implicitly at least, clear signs of government's concern for economic issues.

A major financial reform came in 1887 with the institution of regular annual budgets, bringing together anticipated as well as actual budget expenditures and revenues. This move, for the first time, gave the government knowledge of the trends in public finance and some possibilities of controlling them. However, these early budgets were still not reliable. Early budgets provided little for investment and for what can be considered as productive expenditure. In 1887, for example, 84 per cent of budget expenditures seem to have been taken up by such unproductive items as such charges for debt service (30 per cent), military expenditure (44 per cent) and expenditure on the police and gendarmerie (10 per cent), with the result that only 2% of the budget was left for investment<sup>32</sup>.

However, even in this tight situation, there were signs of a new awareness of the need to use tax revenues for developmental purposes, such as the decision in 1888 to allocate 11 per cent of yearly tithe revenues towards the capital of a newly established Agricultural Bank, the main function of which was to grant agricultural credits to farmers at low rates of interest. Furthermore, with increasing budget revenues and the decreasing pressure of military expenditures, a larger proportion of budget expenditures was allocated for investment purposes. Thus, the proportion of expenditure spent on investment rose, by steps, to 3.5 per cent in 1897, to 6.2 per cent in 1909 and to 7.8 per cent in 1911. Moreover, in the period between 1887-1911, budget revenues increased by 100 per cent, from 15.5 million O.L. in 1887 to 31.1 million O.L. in 1911.

Another important indication of growing government concern for economic development was to be found in the statistical field, as exemplified by the holding of population censuses and of production surveys in agriculture and industry. Three censuses of population had already been organised in 1831, 1844 and 1859, mostly for military and taxation purposes, but little information seems to be left from these early censuses. In 1882-84, a comprehensive census of population was held throughout the Empire (except in the Hedjaz, Yemen

<sup>32</sup> V. ELDEM, *op. cit.*, p. 244.

and Tripoli), for the purpose of constructing a regular population registry. The figures for 1882-84 were subsequently extrapolated by the Statistics Department of the Ministry of Commerce, to extend to 1897 and to 1901, and all this information on population was published in the first Ottoman Statistical Year-Book in 1907. From the above information on population, Eldem calculated the per annum growth of population between 1884 and 1897, which he finds to be 0.8 per cent, while the population annual growth, within the present boundaries of the Republic, was approximately similar, namely 0.77 per annum<sup>33</sup>.

The interest of Ottoman governments in the development of the economy was also displayed in the surveys of agricultural and industrial production, conducted respectively by the Statistics Department of the Ministry of Agriculture and of the Ministry of Commerce. In agriculture, a survey of production was conducted in 1907 for the European part of the Empire, while Asiatic and African provinces were surveyed in 1909. The Ministry also established regular production statistics for principal crops for the period 1897-1914. On the other hand, livestock production estimates have been derived by Eldem from livestock tax statistics.

On the basis of the above information, V. Eldem has prepared an index of agricultural production which shows an increase of total agricultural production, at constant prices, of 44 per cent, between 1897 and 1914 (34). It is interesting to note that physical production rose very rapidly in the case of cash crops, showing increases in the ranges between 112 per cent to 300 per cent for such crops as dried fruits, tobacco and cotton. On the other hand, the rates of increases in traditional subsistence crops, such as cereals (34 per cent) and livestock (26 per cent) were much slower.

Turning to industry, the surveys conducted by the Ministry of Commerce in 1913 and in 1915 give us comprehensive information about so-called large industry, defined as establishments using an engine of at least 5 HP, and employing at least 10 persons or

<sup>33</sup> V. ELDEM, *op. cit.* p. 63.

<sup>34</sup> V. ELDEM, *op. cit.* p. 77.

establishments, which, though without an engine of at least 5 HP, employed at least 20 persons.

The two most important sub-sectors in industry in 1913 were food, followed by textiles. The food sub-sector produced around 68 per cent of the total value of industrial production in Western Turkey, while the share of textiles was 15 per cent. Since no figures for industrial production are available for years previous to 1913, no long-term trend for industrial production as a whole can be established. Eldem has estimated that the production of cotton textiles in Turkey increased by 100 per cent between 1885 and 1913, on the basis of raw material intake data. However, the size of modern textile plants in the economy always remained limited. This comes out from estimates about the sources of total textile consumption in the country in 1913. Total value of consumption in 1913 was 98.9 million O.L. and 78 per cent of this total came from imports, 20 per cent was supplied by local handicrafts, while only 2 per cent was provided by local plants (35).

The policy of Ottoman governments in the fields of money and finance in the period 1880-1914 was one of strict orthodoxy. Apart from this, do we have any clue about the general views of Ottoman governments on economic issues, more particularly on the lines which economic development should take? Does any formulation of views on such subject exist at all? It is very difficult, if not impossible, to find explicit Ottoman statements in this respect, but then in the liberal climate prevailing all over Europe, the need for expressing definite views on economic development was not generally felt, except that the liberal model, opposed to government participation in directly productive activities, was generally accepted. The Ottoman view seemed to conform to the liberal model. This view can probably be best deduced by implication, from various specific policies pursued at various times by Ottoman governments. So, a picture of what Ottoman governments had in mind for the economic future of the coun-

<sup>35</sup> V. ELDEM, *op. cit.*, p. 144.

try can, hopefully, be constructed.

There seems little doubt that the Ottomans attached great importance to the construction of basic infrastructure, in particular railways, as a major contribution to economic development. When discussing whether the original stimulus to railroad construction after 1880, came from the Public Debt Council, from the government or from foreign promoters, Blaisdell underlines the interest of Sultan Abdülhamid in railways for developing trade in the Empire<sup>36</sup>. An obvious fact confronting governments was that the construction of infrastructure had to be financed from foreign sources (private or public), since the government's own possibilities in this respect were practically non-existent until the 1900's. Further, the lack of technical knowledge and know-how also made it necessary for the construction and operation of infrastructure to be taken up by foreigners.

Such were the constraints under which the Ottomans laid down an infrastructure programme, largely financed and realized by foreign concessions and loans, though there were significant items of infrastructure investment financed by internal resources (telegraph and postal communications, roads, education, and the 1400 km long railway from Damascus to the Holy City of Medina, started in 1901).

The infrastructure programme constituted the framework within which productive activities undertaken by private enterprise (national and foreign alike) would take place, to achieve economic expansion. Various instruments, policies and institutions were relied upon to stimulate and encourage the growth of private enterprise. These included the laws, passed in 1873, 1888, 1897 and 1913 successively, which enlarged the types and scope of facilities extended to new industrial establishments. There were also moves to protect domestic industry against foreign competition through changes in custom duties and the encouragement of financing facilities for agriculture, industry and trade, through the establishment of the Agricultural Bank and the permits granted to foreign and to small-scale local banking institutions.

The period of constitutional monarchy (1908-1914) during which

<sup>36</sup> D. BLAISDELL, *European Financial Control*, *op. cit.* p. 128.

the views of the Committee of Union and Progress on policy acquired great significance, strengthened even more the essentially liberal approach to economic development. The speech made by the General Secretary of the Union and Progress Committee, Fethi Okyar, at its annual congress on the 20th September 1913, outlined the need for quickening economic advance in industry, through institutional and other measures. Fethi Okyar underlined the role of banks and similar financial intermediaries in this process and referred to the role of agricultural cooperatives in expanding agriculture<sup>37</sup>.

Economic motivations and behaviour among individuals in Ottoman society also changed appreciably in the same period. The centralized command economy of the Empire finally broke down at the turn of the century and individual motivations emerged, at the producer and at the consumer levels. The study of the complex factors which influenced individual behaviour is left aside: objective criteria, such as a growing trend in private enterprise activities and changes in individual consumption patterns is reviewed.

In the field of production, the information taken from the so-called 'large' industry surveys of 1913 and 1915 provides information about the foundation of firms included in these surveys. The number of such firms founded before 1880 was only 56. The quickening of the tempo in the establishment of private enterprise is indicated by the fact that their number rose to 753 by 1913<sup>38</sup>. Another indication of the changing form of industrial organisation is the final repeal, in 1913, of existing legislation on guilds.

In agriculture, a parallel movement towards private production for profit was developing, based upon the increasing recognition of private ownership in land. The strengthening of commercial motivations in agriculture can also be deduced from agricultural statistics, showing that the production of cash crops increased much more rapidly than the production of mainly subsistence items, such as cereals and livestock, between 1897 and 1913<sup>39</sup>.

<sup>37</sup> TEVFIK ÇAVDAR, *Talat Paşa, Dost Yayınları*, Ankara, 1984, p. 327.

<sup>38</sup> V. ELDEM, *op. cit.*, pp. 71, 121, 124 and 125

<sup>39</sup> V. ELDEM, *op. cit.*, pp. 71.

Changes in the form of production were accompanied by changes in the traditional life-style and consumption pattern of Ottoman society, away from local, hand produced goods, towards western - style, factory produced goods. Probably the best evidence of the change in the pattern of consumption is provided by the leap in the level of Ottoman imports, from an annual average of 20 million O.L.; during 1880-1900, to an annual average of 43 million O.L., between 1910-1912. During the whole period 1880-1914, consumer goods, in the form of foodstuffs, textiles, fuel and miscellaneous goods, made up 90 per cent of total imports. The increasing importance of western-style consumer imports in the Ottoman economy is indicated by the percentage rise of imports in gross domestic product, from 12.8 per cent in 1890-1900 to 20.3 per cent in 1911-1912<sup>40</sup>.

The changes in attitudes at government level and in the motivation and behaviour of private individuals provide evidence of new developments with favourable influence upon the emergence of economic growth. These changes constituted the necessary conditions for growth, but taken by themselves they were not sufficient to bring about growth. The beginning of growth was also dependent upon the availability of resources to be allocated to investment and upon the transfer to Ottoman society of a minimum level of technical knowledge and know-how. However, the internal capacity to generate investment resources and technological know-how was extremely weak in the Ottoman economy, both in the private sector and in the public sector. So, resources for capital formation and technical knowledge itself could only come from the outside world. The main problem here was to bring about a net inflow of resources from abroad, in an economy saddled with the burden of high annual debt repayments as a result of the 1881 debt consolidation agreement. Moreover, the government's credit rating in the early 1880's was very low, as a result of earlier disastrous financial experiments.

Obviously, the restoration of foreign confidence in the Ottoman economy was a *sine qua non* for the resumption of foreign loans to

<sup>40</sup> These figures are calculated from imports and national income data, published in V. ELDEM, *op. cit.*, pp. 186 and 308.

the government, as well as for the emergence of private foreign investment on a substantial scale. In turn, the restoration of foreign capital inflows depended, above all, on an orderly and timely process of debt repayment and secondly, upon the maintenance of monetary and financial stability in the Empire. The rude lessons administered by the disastrous consequences of past financial and monetary experiments had a salutary effect upon Ottoman governments but was it sufficient by itself to restore foreign confidence? At this critical point, the existence of the newly created Public Debt Council proved to be of crucial importance in reversing the situation and eventually in establishing foreign confidence in the Ottoman economy. Apart from guaranteeing and executing an orderly repayment of debts, the Public Debt Council cooperated with Ottoman governments to maintain stable financial and monetary conditions and also helped with arranging new foreign concessions for the infrastructure projects of the government.

I have already spoken about the introduction of budgetary controls over public finances. In the field of monetary policy, a *de facto* gold standard was maintained. Thus the external value of the basic monetary unit in circulation, the Ottoman gold lira, remained practically unchanged, between 1880 and 1914, at around 1 Pound Sterling = 1.10 Ottoman pound (or lira).

Monetary and financial stability brought a remarkable degree of price stability between 1880 and 1914. Internal prices tended to move together with world prices, falling gradually by 25 per cent between 1880 and 1895 and rising thereafter gently, with the result that the price level in 1913 stood roughly at the same level as in 1880<sup>41</sup>.

This was the economic climate, which taken together with the orderly repayment of the old consolidated debts and the contracting of new debts after 1886 made possible fairly quickly the re-establishment of foreign confidence and eventually led to the emergence of a net inflow of resources into the Ottoman economy, through stages to be described further below.

<sup>41</sup> V. ELDEN, *op. cit.*, p. 196.

The so-called 'foreign influence' contributed to achieve a net inflow of financial resources, in the face of the daunting debt repayment problem, and rough estimates can be given for each period, of total debt repayments on one side and of new borrowings on the other to reach an evaluation of the movement of resources on public account. The question of the transfer of private resources will be discussed afterwards.

The initial period, during which there was a net outflow of resources on public account, stretches from the time of the consolidation agreement of 1881 down to the year of the conversion of outstanding Ottoman bonds (1903). During this period, total repayments carried out through the Public Debt Council amounted to approximately 50 million O.L. (42). By the year 1886, the credit rating abroad of the Ottoman government had recovered enough to enable long-term loans to be floated again in foreign markets on much more reasonable terms than before 1874. Foreign borrowing was resumed and reached the total of 33 million O.L. until 1903. Thus, between 1880 and 1903, the net outflow on government financial account amounted to 17 million O.L.

In 1903, the Ottoman government and the Public Debt Council carried out a conversion and unification of outstanding Ottoman bonds, bringing the nominal value of debt from 101.5 million O.L. down to 57.8 million O.L., an amount approximately equivalent to the market value of Ottoman bonds at the time. Simultaneously, the rate of interest paid on new bonds was increased from 1 per cent to 4 per cent. The annual repayment burden on the new bonds came to around 2.1 million O.L. The conversion operation of 1903 confirmed the increased credit rating of the government in foreign markets.

In the five years between the conversion and the introduction of the constitution (1904-1908), repayment on total debts amounted to 17 million O.L. while new public foreign indebtedness came to around 20.8 million O.L., implying a net inflow on government ac-

<sup>42</sup> Estimate made on the basis of the Debt Council's average annual revenue of 2.3 million O. L. used for the service of the debt, from D. BLAISDELL, *European Financial Control. op. cit.*, p. 117.

count of 3.6 million O.L. During the final six-year period, between the beginning of constitutional monarchy and WWI (1908-1914), new government borrowing (including local authorities loans) increased significantly to 57 million O.L., while the value of debt repayment was around 35 million O.L. This resulted in a net inflow of resources on government account of 22 million O.L. On long-term financial account, the balance, in terms of movements of financial resources, during the whole period 1880-1914, appears to have been a net inflow of around 8 million O.L.

As regards the situation with short-term borrowing, we know that the outstanding short-term debt of the government in 1914 was around 40 million O.L.<sup>43</sup> If this amount is assumed to represent a net inflow of resources, then, during the whole period 1880-1914, the Ottoman governments, in addition to repaying existing debts, appears to have been able to bring about a net inflow of resources of around 50 million O.L. on government account.

The situation suggests an important achievement from both the financial and the economic points of view. However, the picture is not yet complete, because we have also to take account of private flows of resources into the Ottoman economy during this period. The total inflow of private foreign capital into the Ottoman economy up to 1914 is reckoned to amount to 84 million O.L. Most foreign capital investment occurred after 1880, although we have no precise knowledge about dates. This success story was made possible by the climate of confidence which I have described above and by the attractive terms offered by the Ottoman government to foreign concessions in the field of infrastructure, for example by guaranteeing minimum revenues per kilometre of railway operated by railway companies and the fixing of favourable rates and tariffs in public utilities.

The bulk of private foreign investment in the Ottoman economy was in basic infrastructure (75.8 per cent of the total) such as railways, public utilities, ports and quays. Banking and commercial activities absorbed 13.2 per cent and the remainder (around 10 per cent) went

<sup>43</sup> V. ELDEM, *op. cit.*, p. 265.

into manufacturing (tobacco manufacturing and mining included)<sup>44</sup>. Foreign capital has been criticized by some Turkish authors on account of its low propensity to invest in manufacturing, but the circumstances prevailing at the time in the Ottoman economy and the conditions ruling in foreign trade could hardly have produced a different pattern in the distribution of foreign investment.

Foreign investment also gave rise to an outflow of resources in the form of profit remittances abroad. In his balance of payments estimates, Eldem puts the annual outflow on this account at around 2.5 million O.L., during the first decade of the XXth century. Against this outflow, we may set annual inflows of 1 million O.L. for rents of Turkish property abroad and of 3 million O.L. for remittances of Ottoman citizens abroad<sup>45</sup>.

What was the economic order of magnitude represented by the foreign inflows of resources into the Ottoman economy, made up of foreign investment and of the estimated net inflow of resources on government account?

In value terms, total net estimated inflow of resources during 1880-1914 (around 130 million O.L.) turns out to be approximately equal to total investments in the economy during the 7-year period between 1907-1913, namely 133 million O.L.<sup>46</sup>.

This comparison would give us a rough idea of the economic weight of foreign resources in the Ottoman economy, but a comparison in value terms is bound to be misleading, since the role of foreign investment in the Ottoman economy did not simply consist in transferring resources to finance investment. With its primitive technology, the Ottoman economy would have been unable to create the infrastructure investment involved by itself, without the help of the technology associated with foreign investment. Finally, the pro-

<sup>44</sup> Percentages are calculated from the table on p. 190 in V. ELDEM, *op. cit.*

<sup>45</sup> V. ELDEM, *op. cit.*, p. 193.

<sup>46</sup> According to estimates made by V. ELDEM, total investment in 1907 was 19.0 million O.L. and rose very slightly to 19.6 million in 1913. Assuming investment changed little between 1907-1913, total investment in this period amounting to 133 million O.L. cumulative.

blem of securing the management know-how connected with the operation of the infrastructure facilities would have been extremely difficult to solve. Taking the technology aspect into consideration, we can assume that, apart from its size, the presence of foreign investment in the Ottoman economy exercised a strategically key influence in bringing about the economic growth described below.

I shall not pursue further here the discussion of the impact of foreign investment in various sectors of the economy, since my purpose, in this section of the paper, has been to review, in broad terms, the three main factors which together were responsible for the emergence of economic growth, between 1880-1914, namely the changes in government attitudes towards the economy, the transformations in individual economic motivations and behaviour and finally the realized inflows of foreign resources into the economy, in the face of heavy debt repayment burdens.

The changes which occurred in the Ottoman economy at the turn of the century down to the beginning of the First World War, are best reflected quantitatively in the national income estimates prepared by Vedat Eldem. Since these estimates constitute the principal source for economic change during the period, a few words about sources, methods and reliability of national income calculations are called for.

In his book on the Ottoman economy during the XIXth century, Eldem undertakes the difficult but rewarding task of putting together available statistics and other information to construct national income estimates for the years 1907, 1910 and 1914. The method used consisted in deriving value-added estimates from the production statistics, in each sector where data were available. Where production or activity data were not available, such as was the case for commerce and personal services, inevitably subjective and indirect estimates had to be made. According to Eldem, around 60 per cent of the material necessary to construct national income came from available statistics, while the rest had to be filled by various methods of estimation. Since value-added in principal sectors, such as agriculture, industry, mining, government and transport was obtained through production or

employment statistics, Eldem considers the degree of reliability of his national income estimates as fair<sup>47</sup>.

Apart from the construction of detailed estimates for the years 1907, 1913 and 1914, Eldem undertakes to construct rougher and more aggregated estimates for other years between 1889 and 1914, estimating agricultural production from tax statistics and using available information about mining and transport activities and about the government sector for years which were not calculated directly<sup>48</sup>. Although admittedly rougher and less reliable than the estimates for 1907 and 1913, the fact that the series covers a long time span of around 25 years makes it a valuable instrument for the evaluation of long-term change in the economy. Eldem's long-term estimates for the period between 1899 and 1911, the year preceding the Balkan War of 1912, at constant 1913 prices, are given below and broken down into four sectors:

1) agriculture, 2) industry, mining and transport, 3) government, 4) other sectors. A second table below shows the rates of growth for total gross domestic product between 1889 and 1911, for the whole period 1899-1911 and for the four-year period, between the introduction of constitutional monarchy and the Balkan War.

In a third table, I have calculated annual average rates of growth, by sector and by period.

<sup>47</sup> V. ELDEM, *op. cit.* p. 279.

<sup>48</sup> V. ELDEM, *op. cit.* p. 307.

GROSS DOMESTIC PRODUCT  
(at 1913 Constant Prices, Million O. L.)

	Agriculture	Industry, Mining, Transport, etc.	Government	Other	Total
1889	92.8	22.5	12.0	31.6	162.0
1907	117.7	37.9	15.5	41.0	212.1
1911	131.3	42.8	17.2	43.8	235.1

GROSS DOMESTIC PRODUCT  
(Total Percentage Rates of Change, by Period)

	Agriculture	Industry, Mining, Transport, etc.	Government	Other	Total
1889-1911	41	90	43	38	45
1907-1911	11	13	11	7	10

ANNUAL AVERAGES  
(Rates of Growth by Period)

	Agriculture	Industry, Mining, Transport	Government	Other	Total
1889-1911	1.9	4.1	1.9	1.7	2.0
1907-1911	2.7	3.2	2.7	1.7	2.5

It is with aggregate long-term changes that we are concerned in this paper. The study of sectoral changes, although interesting, remains outside the scope of the paper. We observe first that gross domestic product showed a yearly increase in real terms of approximately 2 per cent during the 22-year period beginning in 1889. Eldem compares the yearly long-term growth rate in Western countries and notes that Ottoman growth remained below the German growth rate, between 1875-1913 of 3.1 per cent, and the American growth rate of 3.5 per cent between 1884 and 1913. However, a comparison with a country such as Hungary, with conditions closer to those of the Empire, indicates that the growth rate in the Ottoman economy between 1907-11 (2.5 per cent) was similar to Hungary's in the period 1910-12.

The second impression to be derived from these estimates is that some acceleration of growth seems to have occurred during the era of constitutional monarchy, as expressed by the rise in average annual growth rates from 2 per cent between 1889-1911, to 2.5 per cent between 1907-1911.

A third conclusion is that per capita income rose by somewhat more than 1 per cent per annum between 1889-1911, if annual population growth was around 0.8 per cent in the same period.

A brief look at the information available on investment shows that the share of gross investment in G.N.P. was 8.6 per cent in 1907, increasing slightly to 8.9 per cent in 1913<sup>49</sup>. We have no knowledge about investment prior to 1907, but my impression is that there must have been a significant increase in investment in the first decade of the XXth century, over the last decade of the XIXth century. While the share of government in total investment in 1913 was 21 per cent, this share, in the last decade of the XIXth century, had been very much lower, according to available budget figures. Moreover, private investment in directly productive sectors of industry, transport, etc increased significantly over the period 1880-1914, as is reflected in the increasing numbers of firms and limited liability companies which were founded, indicating an acceleration in investment between the last decade of the XIXth century and the first of the XXth century. The level of nearly 9 per cent of G.N.P. reached in 1913 was typical of the level of investment required for economic take-off.

#### IV

To conclude this analysis of Ottoman modernisation in the XIXth century, I want to refer to an interpretation of the course of economic change in Ottoman society which is radically different from the view

<sup>49</sup> V. ELDEM, *op. cit.* p. 309.

presented in this paper, namely the marxist or neomarxist approach, adopted by Turkish writers such as Dogan Avcioğlu, İsmail Cem and Niyazi Berkes<sup>50</sup>.

The most representative and popular exponent of neo-marxist views in Turkey was the late Dogan Avcioğlu. His interpretation of the course of economic history in the Empire is largely shared by other neo-marxist historians and can be said to represent the neo-marxist view.

Dogan Avcioğlu sees the modernisation of the Tanzimat as a process which forced the Ottoman state to fall under foreign domination, and to lose its political and economic independence. In particular, Avcioğlu was concerned with the loss of the Ottoman capacity to formulate and apply economic policies of its own in the XIXth century. The free-trade policy accepted by the Ottomans in 1838, as a result of the Anglo-Turkish commercial convention, was the principal instrument through which foreign domination made sure of the establishment in the Empire of the social and legal framework which opened the way to a free enterprise Western economy. For Avcioğlu, the results of modernisation and free trade were wholly negative for the Ottoman economy. The expansion of foreign trade which followed the 1838 Convention weakened and finally destroyed the Ottoman economy, while foreign imperialism reaped all the benefits.

Avcioğlu further asserts that if Ottoman governments, instead of allowing themselves to proceed with westernization, had rejected westernisation and free trade, they would have succeeded somehow in setting up an independent, autarkic economy, in which an etatist development policy, based upon protection and state leadership, could

<sup>50</sup> See DOĞAN AVCILOĞLU, *Türkiyenin Düzeni (Dün, Bugün, Yarın)*, Bilgi Yayınevi, Ankara 1968; İsmail Cem, *Türkiyenin Geri Kalmışlığının Tarihi*, Cem Yayınevi, İstanbul, 1975; Niyazi Berkes, *100 Soruda Türkiye İktisat Tarihi Gerçek*, Yayınevi, İstanbul 1970.

have created economic growth. This alternative economic policy would have saved the Ottoman economy from destruction and the end result would have been rapid development and growth. For this reason Avcioglu condemned the whole modernisation process begun under the Tanzimat and held the Tanzimat leaders historically responsible for all alleged subsequent economic disasters.

There is no doubt that the anti-western and anti-liberal ideas implied in this interpretation appealed to xenophobic and egalitarian tendencies always latent in Turkish society. Moreover, these tendencies were especially forcefully expressed during the 1960's and the 1970's, when Avcioglu was particularly active, both in writing and in Turkish politics. How does Avcioglu's interpretation conform with the political, social and cultural conditions prevailing in the Ottoman Empire during the XIXth century and with the economic and social constraints affecting economic growth? What degree of historical validity can be attached to Avcioglu's speculations about an alternative course for Ottoman political and economic development? If we ask ourselves a few basic questions about the assumptions and theses put forward in the neo-marxist interpretations of Ottoman history, it is easy to expose the historical fallacies which lie behind them.

First, what do mean exactly when we talk about domination or about the influence of one civilisation upon another? Do we conceive this concept as a single causal factor, present in the dominant civilisation, defined as foreign imperialism, and capable of destroying the weaker civilisation or society? Or is foreign influence a complex amalgam of elements, reflecting the differing political, strategic and economic motivations and influences of various foreign official and unofficial bodies, an amalgam which may change with the times?

Further, should we see economic change simply as the end result of government decisions, imposed unilaterally from above, which work themselves out in a kind of social vacuum, free from contemporary political, strategic, cultural and material constraints? Or on the contrary, is economic change, in part, a spontaneous social process which will depend on the existence of a favourable combination of the above

mentioned constraints?

Were major political decisions, such as the decision taken to westernize the Ottoman Empire by the reforming sultans, like Selim III or Mahmud II, taken with regard to their effect on economic progress and on the economic system? Or were such decisions the results of essentially political and strategic consideration reflecting the correlation of forces, internally as well as externally? Was Tanzimat modernisation during the XIXth century an entirely artificial process, undertaken and pursued at the bidding of foreign domination? Or was it an admittedly slow and sometimes contradictory movement, which was initiated by Ottoman sultans with the purpose of maintaining the political integrity of the state, but which was also influenced, in many ways, culturally, politically and economically, by the different interests of European powers?

