

# **Fiscal Crisis and Foreign Borrowing in the Ottoman Empire: Historical and Contemporary Discourses and Debates**

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## ABSTRACT

From the 1850s on, the Ottoman state increasingly resorted to foreign loans in order to finance warfare and the lavish expenditures of the Imperial court, starting down the road to insolvency. In 1875, the Empire, unable to cope with mounting debt and deteriorating financial circumstances in the European markets, defaulted on its loans and ultimately agreed to compromise its financial autonomy by ceding control over more than one-third of state revenues to a foreign controlled council, the Ottoman Public Debt Administration (OPDA). In the last decades of the Empire, the OPDA played a pivotal role in the transformation of the Ottoman economy and became a symbol of western imperialism in the country. Still today, the Ottoman experience with foreign borrowing and the resulting European control of Ottoman finances are occasionally cited by politicians and pundits all along the political spectrum. This paper explores historical and contemporary discourses and debates on Ottoman foreign borrowing and their relevance to contemporary Turkey.

## **1. Introduction**

Under severe financial distress, in the mid-19<sup>th</sup> century the Ottoman state resorted to foreign loans. This move was unprecedented, and the administration was reluctant to borrow from Christians. Nevertheless, after the first loan the Ottomans quickly grew accustomed to international loan markets and gained a rep-

utation with their high-yield bonds. As the foreign debt snowballed, the Sublime Porte mortgaged its most liquid and stable revenue sources in order to issue new bonds on better terms. However, financial conditions were deteriorating in the world economy. In the mid-1870s, at a time when international capital markets were tightening, interest rates hit historical highs. Unable to contract new loans to pay down the existing debt, in 1875 the Ottoman state defaulted.

The default blocked the government's access to international credit. As financial centers recovered from the slump, the Porte once again sought to issue new loans in Europe. For this purpose it agreed to the establishment of the European-controlled Ottoman Public Debt Administration (OPDA), which would administer the revenue sources allotted to debt service. In nationalist circles the establishment of the OPDA was perceived as a severe blow to Ottoman dignity and sovereignty. For the first time in its history, the Ottoman Empire was forced to surrender a considerable portion of the state's most liquid revenues to the unconditional control of a foreign commission, which constituted a "state within the state."

The OPDA played a crucial role in the transfer of economic surplus from the Empire to the core economies of Europe. It secured and furthered the interests of the countries directly or indirectly represented in its administration. At the same time, it also initiated reforms aimed at the modernization of Ottoman state entrepreneurship. From the outset the OPDA was at the center of public attention. Even today, the Ottoman experience with foreign borrowing and the resulting European control over the imperial finances are occasionally referred to by politicians and pundits across the political spectrum. This study explores historical and contemporary discourses and debates on Ottoman foreign borrowing and their relevance to contemporary Turkey.

## 2. Historical background and early critiques of Ottoman foreign borrowing

In the early seventeenth century the Ottoman Empire witnessed a weakening of state institutions that brought a loss of control over both the economic and the political sphere. Until then the traditional decentralized military structure had functioned well and the Empire had continued to expand. During this time, the Ottoman state had remained financially sound, thanks largely to the revenues obtained through rapid territorial expansion. From the late sixteenth century on, however, developments in weaponry created the need for a modern central army. This transformation required a strong central Treasury capable of financing the reorganization of the military structure and maintaining a central army. In order to strengthen the central Treasury, the Ottoman government introduced a series of reforms, including the *iltizam* system of tax-farm auctioning and subcontracting. As the financial problems of the state mounted, the government gradually increased the duration of the tax-farming contracts and instituted new methods of tax collection.<sup>1</sup>

However, these reform efforts failed to provide a durable solution to the financial problems of the Treasury, and the government frequently resorted to debasement of the coinage, which in turn fueled economic instability. In order to finance the recurrent budget deficits, the Ottomans also introduced new instruments for domestic borrowing, such as *eshams* and *sergis*.<sup>2</sup> Another instrument for the same purpose was the *kaime*. Initially issued in 1840 as 8-year interest-bearing Treasury notes, *kaimes* gradually came to take the form of unbacked paper currency. However, particularly during the Crimean War, the government's increasing reliance on the issuance of *kaimes* caused a surge of inflation. Towards the end of the 1850s *kaimes* no longer commanded trust in the markets, and their redemption became a major liability for the Porte.

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<sup>1</sup> Birdal, 2010: 17-18.

<sup>2</sup> Clay, 2000: 19-20.

In order to describe the economic mentality of the Ottoman bureaucracy, Muammer Sencer cites a story that circulated widely at the time.<sup>3</sup> Sultan Abdülmecid asks the minister of finance to estimate the total cost of construction of the Dolmabahçe Palace. The minister answers: “3,500 piastres my Sultan” (a paltry sum). As Abdülmecid hesitates in disbelief, the minister continues: “The cost of the paper and ink required for the issuance of 70,000 francs worth of *kaimes*.”

As the government could not resolve the increasing budget deficits by institutional reform and frequent debasement, it turned to local bankers. Galata bankers (as they were called after the banking district of Istanbul) provided the Ottoman government with short-term advances at often usurious rates. These bankers often borrowed from abroad and lent to the government at exceptionally high interest, earning the nickname of “Galata Vampires.”<sup>4</sup> As the financial needs of the Empire grew, the Porte became more and more dependent on these loans.

For a long time, the Ottoman rulers avoided foreign borrowing for political reasons. However, the budget and liquidity crisis caused by the expense of the Crimean War left them with very few options. Under the official guarantee of its allies, Britain and France, the Ottoman state contracted its first loan in foreign markets, starting out on a road that would ultimately lead to insolvency. A growth model based on foreign borrowing is sustainable only if state revenues outgrow expenditures. In the Ottoman case, with the exception of the 1870 loan allocated to the construction of the Rumeli Railway, none of the loans were appropriated for infrastructural investment that could stimulate economic growth and lead to an increase in state revenues. The other loans contracted in this era went to such areas as: military expenditure, luxurious expenditures of the Sultan, debt repayment and financing the recurrent budget deficit.<sup>5</sup>

The successive foreign loans contracted by the government drew

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<sup>3</sup> Sencer, 1977: 30.

<sup>4</sup> Birdal, 2010: 35.

<sup>5</sup> Kazgan, 1982.

fierce criticism from Ottoman intellectuals. In 1868 the newspaper *Hürriyet* published a declaration by 102 signatories protesting the new foreign loan. The criticism against the government was summarized under five headings:

1. The government issued a new loan despite the fact that it had previously promised not to take any loans beyond the limit of 40 million.
2. Previously, the government had argued that the proceeds of the loans were to be used for the benefit of the people, such as investments in education or infrastructure. However, the loans were used to fund luxurious expenditures of the Ottoman bureaucracy.
3. The loans were raised without any regard for public opinion and decisions were made behind closed doors by the *sadrızam* (Grand Vizier) and a few ministers, whose relatives also received commissions from the loans.
4. It has already been shown that as borrowing continues budget deficits will continue to grow.
5. Due to high interest rates and commissions, European bankers continue to extend credit to the government, despite their lack of information about the country.

The declaration ended by noting that the Ottoman people would not recognize the debt and that it should be repaid by whoever received the proceeds of the loans.<sup>6</sup>

In another article in the same newspaper, Ziya Pasha emphasized that despite the economic hardships, until 1854 the Ottoman administration had striven to stand on its own feet. The pretext for foreign borrowing was to develop ties with the western nations against the Russian threat. Lending to the Ottoman government would advance the interests of European financial capital in the protection of the Empire. Hence, it was presented not only as a financial measure, but also as a national security measure. However, once the

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<sup>6</sup> Çakır, 2001: 198-199.

loan was received, others followed in rapid succession. As the government developed the habit of financing its lavish expenditures by borrowing abroad, the Empire's foreign debt snowballed. Ziya Pasha noted that even Europeans warned against the perils of foreign borrowing for unproductive purposes.<sup>7</sup>

Another important Turkish author who criticized the foreign borrowing frenzy was Namık Kemal. In his article "The New Loan" Kemal drew attention to the high spread on Ottoman bonds despite a series of hypothecations on each loan. He noted that the average European businessman never paid dividends of more than 5 percent, while the Ottomans were paying around 12.5 percent interest on foreign loans.<sup>8</sup>

Ali Suavi directed harsh criticism against the government due to the piling up of foreign debt and went so far as to issue a fatwa calling for the death of Ali Pasha for leading the country to bankruptcy. A fervent critic of foreign borrowing, Ali Suavi nevertheless did admit that it could be resorted to under special circumstances, i.e. to finance productive investments. Like many others, he underlined the risks of financing the daily operations of government by foreign borrowing.<sup>9</sup>

The European press, too, could not remain indifferent to the Ottoman borrowing frenzy. High-interest Ottoman bonds had become the favorite "gambling stock" of many European investors. As early as 1865, the *Times* of London published a report underscoring that along with their high yields, Turkish bonds also posed great risks to their investors:

Oriental governments invariably live from hand to mouth. They contract debts without forethought; are irregular in their payments, and, as a consequence pay, in the long run, usurious rates, in order to cover their risk. European governments, on the other

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<sup>7</sup> Çakır, 2001: 200.

<sup>8</sup> Çakır, 2001: 203-204.

<sup>9</sup> Çakır, 2001: 203-204.

hand, make the act of borrowing a deliberate and public act, surrounded by as many safeguards to the lender as possible, and they invest their public stocks with as many attributes of security and convenience to the holder as possible, so to get money at the lowest rate which the intrinsic state of the credit admits of.<sup>10</sup>

Despite the obvious risks attached to these instruments, European investors, mesmerized by their high yields, continued to show great interest in Turkish bonds. As Turkish bonds flooded the European markets, the press questioned the sustainability of Ottoman borrowing:

... the only chance of the Turkish government avoiding ultimate bankruptcy is by a determination to struggle through their financial difficulties without further external aid. Subscribers to every new loan must be aware that they are but feeding a flame which in the end will consume everything if the whole system be not radically altered.<sup>11</sup>

An article in the *Figaro*, published only a year before the Ottoman default, explicitly warned small investors against the speculative nature of Turkish bonds:

No man of business buys Turkish stock as a permanent investment. It is bought by men of business only for speculation. It is, in this country, the favorite gambling stock. It offers immense chances... It would be in vain to warn capitalists that they run a considerable risk. They are aware of it. They do not mean to keep their Turkish Stock. They hope it will be forced to a premium, and then they will sell.

It will we fear, be equally in vain to warn widows, clergymen and provincial tradesmen, who have saved a few hundreds, not to touch Turks. Twelve per cent, will prove in many instances, an ir-

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<sup>10</sup> *The Times*, 1865, 02.05.

<sup>11</sup> *The Times*, 1874, 07.11.

resistible temptation. Yet we are persuaded that, in a year or two, those who invest in Turkish stock will repent their folly, and will anathematise those who duped them. The process of borrowing to pay interest on former loans and to make up the deficit in the revenue for home purposes, is fast coming to an end. Turkish bubble must soon burst.

The article further warned its readers against drawing wrong conclusions from the military alliance of the British Empire with the Ottomans and entertaining hopes that a possible bankruptcy would be prevented by the interference of the British government.

In the event of war, we should freely and lavishly subsidise Turkey for military purposes; but the British government would not, either in peace or war, intervene between the Turkish government and its creditors. It would be well for those who think of investing in Turkish stock to understand the matter. Neither directly nor indirectly does the British government guarantee the payment of the Turkish debt.<sup>12</sup>

History proved the critics right. After 20 years of borrowing, in 1875 the Ottoman government defaulted. Despite the warnings, as in every other bankruptcy, the holders of Turkish bonds were caught off guard. And also as predicted, British bondholders (particularly of the 1854-55 Crimean loans) claimed to have invested in Turkish loans with the perception that they were backed by the Queen's government. Hence, they campaigned for government support to salvage their investments. The letter below is a typical example.

I am the widow of one of her Majesty's officers, with four children, and I found myself in October, 1875, with the little all of my fatherless children invested in the Turkish 1854 loan. My children's money was invested in this loan not as a speculative investment –

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<sup>12</sup> *The Figaro*, 1874, 17.06.

for the price we paid was higher than English Consols and the interest we get is only 1 percent more than we could have obtained on mortgage of real property in the United Kingdom – but because it was considered a sound investment for the following reasons: 1. The money was raised and spent to enable the Queen’s ally to keep his armies in the field against the Queen’s enemies. 2. Lord Clarendon, the then Foreign Minister, recommended the loan to the public in an official memorandum from the Foreign Office... Fortified with this I now entrust the members of the present government, as the successors of those of 1854, to give this question at least fair-play, and to support our rightful claims.<sup>13</sup>

Six years after the default, in an effort to regain access to foreign loans, the Porte signed the Decree of Muharrem, leading to the establishment of the Council of Foreign Debt. It consisted of two members from France, one each from Germany, Austria, Italy, and the Ottoman government itself, and one from Britain and the Netherlands together. The foreign members of the Council were selected by the bondholders or banks or, in the case of Italy, by the Rome Chamber of Commerce. The council established the Ottoman Public Debt Administration (OPDA).<sup>14</sup>

The Decree of Muharrem gave the OPDA the authority to administer, collect, and cash the revenues and other sources ceded to the service of debt. The government was also bound to provide general assistance and military protection for its operations. The Administration was largely independent of the Ottoman government, which could only send a commissioner to the Administration’s regular meetings and examine the books. Beyond that it had no right to interfere with operations. In case of a disagreement between the government and the Council, an arbitration panel would be formed to resolve the matter.

According to the decree, the revenues from the salt and tobacco

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<sup>13</sup> *The Telegraph*, 1877, 29.03.

<sup>14</sup> Birdal, 2010: 35.

monopolies, the stamp and spirits tax, the fish tax, and the silk tithe of certain districts were transferred to the OPDA along with the Bulgaria tribute, the revenue from Eastern Rumelia and the surplus of the Cyprus revenue. And since the government continued to borrow from abroad, the OPDA's control over the resources of the Ottoman economy extended far beyond the assignments of the decree. Consequently, by 1912 the OPDA had more employees than the Ministry of Finance.<sup>15</sup>

By the terms of the decree, the Porte had compromised its financial and political autonomy, but the decree did help to solve short-term liquidity problems, as the Ottoman government regained access to European financial markets.

European bondholders and pundits welcomed the establishment of the OPDA as promising for loan repayment. Early accounts of the Administration also emphasized its greater responsibilities to the Ottoman economy, since the OPDA's prospects were bound up with the performance of the economy at large.

The progress of the Council of Administration in its important task must carry with it the re-establishment of the Turkish Debt on a sound financial basis, the renewal of national credit, a development of the general resources of the country, and a consequent improvement in the condition and prospects of the entire Ottoman population.<sup>16</sup>

The establishment of the OPDA encouraged not only lending from abroad, but also foreign direct investment in the Empire. A considerable amount of the FDI in this period went to the railway projects, which not only facilitated domestic economic activities, but also enabled the penetration of western goods into the interior. According to Donald C. Blaisdell, an American academic who made the first systematic study of the OPDA in 1929:

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<sup>15</sup> Birdal, 2010: 91.

<sup>16</sup> *The Times*, 1883, 02.03.

The Administration of the Public Debt was, in fact, admirably fitted to perform the functions which foreign promoters found lacking in the government itself. The two primary demands were: an agency in which perfect trust could be reposed, and the cooperation of an administration which was capable and efficient. In the opinion of foreign investors the government possessed neither of these attributes. But the Public Debt, also from the viewpoint of Western Europe, did possess them; its support and cooperation were therefore necessary.<sup>17</sup>

The administrative system introduced by the OPDA formed a striking contrast with the financial administration of the Ottoman government in many respects. The OPDA introduced new technologies to the relevant sectors under its responsibility, improved the regulations and made the necessary legislative changes concerning the development of its revenues. Improvements in the revenues under its control and the introduction of new institutions in the relevant sectors also created positive externalities for other sectors of the economy. It is also important to note that the OPDA achieved significant increases in salt, silk and spirits revenues by creating external markets for these articles. This was also another dynamic in addition to the growing exports of the Empire in this period. Finally, we should also note that the international treaties imposed on the Porte by the European powers also restricted the Administration's ability to enhance its revenues. In several cases, such as the stamp law, wine duties and the patent law, the OPDA officials complained of the unfair conditions imposed by the treaties and asked for revisions. In some disputes, they even managed to convince the European powers to endorse some minor modifications.

The most important source of revenue for the OPDA, the tobacco monopoly, was farmed out to the Régie Company, which turned out to be not only the largest foreign investment in the country, but also the largest corporation. The Régie, owing to its monopoly on to-

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<sup>17</sup> Blaisdell, 1929: 125.

bacco, came into direct conflict with unregulated cultivators, smugglers, and also consumers. Throughout its practice the company was regarded as a symbol of western imperialism and exploitation, given its controversial methods of dealing with the cultivators and its infamous surveillance unit, which was held responsible for thousands of deaths.

Throughout the OPDA's history, the bondholders were mainly content with its performance. In 1905 the British press pointed to the significant increases attained in the supervision of the revenues and praised the achievements of the Administration.

We think there can be no doubt whatever that the branch of the Turkish finances administered by the International Commission is in a comparatively flourishing condition. The assigned revenues displaying a gratifying elasticity and year by year surpluses are realized over all charges.<sup>18</sup>

In the years following the establishment of the OPDA, the government, despite occasional adversities, never attempted to claim rights to the revenue sources appropriated to the service of the foreign debt. Even when the country was in dire fiscal straits, the bondholders received their payments regularly.

Judging from the reports that have been circulated, the Government of the Commander of the Faithful has of late occupied the undignified position of being "hard up". So hard up, indeed has it been that a certain section of the army has had to exist without meat for weeks, and butter has been served out instead to the suffering warriors – a diet not calculated to stimulate the martial ardour to any great extent. Fortunately, the service of the foreign debt of Turkey is not controlled by the Sultan or the Eunuchs of the Palace...<sup>19</sup>

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<sup>18</sup> *Financier*, 1905, 19.11.

<sup>19</sup> *The Financial Times*, 1896, 09.05.

Since its early days, the OPDA was at the center of public attention. The establishment of the OPDA, a foreign-controlled body, was a severe blow to Turkish pride. This made it the target of criticism from the Young Turks.<sup>20</sup> However, the critique often remained only discursive and never developed a thorough analysis of the OPDA. During the Ottoman period, the only writer who provided a detailed and coherent analysis of the Administration was Parvus Efendi, who endeavored to expose the role played by the OPDA and the Régie Company in western imperialist penetration of the Empire.

After the 1908 revolution, the PUP (Progress and Union Party) formed by Young Turks toppled the Abdülhamid regime and took power. Parvus Efendi had close contacts with the PUP, writing in journals associated with the party. *Türk Yurdu*, one of the most prominent Young Turk journals after the revolution, approached Parvus for his contributions. From the editorial preface to the first of his articles, we learn that *Türk Yurdu* had trouble finding someone to write on economic matters.

One major issue to which the journal *Türk Yurdu* wants to give more weight is to describe the condition of the economy in the country and offer solutions. Nevertheless, until now our journal has been able to publish only one such article on the condition of the tradesmen. ... In order to fill this void, *Türk Yurdu* has approached some of the country's most prominent economists, but it received nothing but promises. Therefore, it sought the help of someone who, though not Turkish, sympathizes with Turks and analyzes the condition of our country with a sound method and an effective approach, Parvus Efendi.<sup>21</sup>

In his writings Parvus focused on European imperialism in the

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<sup>20</sup> "Young Turks" was the name given to Turkish constitutionalist groups formed mainly by army officers, officer trainees and intellectuals. After the establishment of the Committee of Union and Progress (CUP) in 1906, the Young Turks became the members of this party. In 1908, the Young Turks rebelled against the rule of Sultan Abdulhamid II, forcing him to summon a parliament.

<sup>21</sup> Parvus, 1912, 08.03.

Ottoman Empire and placed the OPDA at the center of his analysis. In his view the Ottoman Empire had become the fiscal prisoner of the European powers and the OPDA had replaced the Ministry of Finance, functioning as a state within the state:

The Ottoman debt is inherited from the old administration. It is understood that the absolutist administration not only deprived the country of its economic power, but also caused greater troubles and shackled Turkey to the European banks with chains, like a prisoner.<sup>22</sup>

Creditors, with the Decree of Muharrem in 1881, placed a part of the state under their administration. They established an international institution under the name of OPDA that functioned as a state within the state. Since then, the OPDA has been a vehicle for keeping the Ottoman state not only under the fiscal yoke but also under the political yoke of Europe.<sup>23</sup>

In many ways Parvus echoed the writings of the Young Turks on the foreign debt. But the times were changing. The Young Turks of the PUP were no longer in the opposition. And despite their earlier criticism, after seizing power they had chosen to cooperate with the OPDA. In a special report for fiscal year 1909-1910 Adam Block, the representative of the British and Dutch bondholders on the Council of Public Debt, praised the new finance minister for his support in the face of widespread public opposition.

Since the advent to power of Djavid Bey, the present distinguished and enlightened Minister of Finance, all questions at issue between the Council and the Government have been promptly settled without friction; the efforts of the Council to give more elasticity to the revenues, and their proposals to improve the yield of the taxes assigned to the Public Debt of the Empire, have had his entire support. Djavid Bey from the first thoroughly appreci-

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<sup>22</sup> Parvus, 1912, 03.05.

<sup>23</sup> Parvus, 1912, 14.06.

ated the work done by the Council of Administration of the Public Debt, and has realized that the interests of the Government and of the debt administration are identical. In the Chamber of Deputies and elsewhere his Excellency has fearlessly and persistently supported the Debt Administration in the face of much hostile criticism on the part of the Chauvinistic element of the Press and of the population...<sup>24</sup>

The PUP had clearly won the favor of the European-controlled Administration. This cooperation allowed the new government to access external funds in the financial markets on better terms. However, it came at a cost for the heavily taxed Ottoman population. The PUP government failed to relieve the Turkish peasantry of the burden imposed by the previous administration, causing severe disappointment among the masses. Parvus emphasized that the principal reason for the PUP administration's neglect of the peasantry was the existence of the OPDA.

The previous administration ruined the finances of the country and with several undertakings placed the country in the hands of European financial groups. The constitutionalist government, in order to provide for the expenses and cover the budget deficits, was forced to borrow from abroad. Hence it needed to establish good relations with the OPDA. OPDA, on the other hand, objects to a reduction in the *aşar* tax, pointing out that the tax revenues of several provinces had been assigned to the Administration as security for loans...Ottoman peasants, as if it was not enough for them to give up their lives on the battlefields, now struggle to fill up the vaults of the OPDA by going hungry.<sup>25</sup>

The Turkish people had to wait until the establishment of the Republic to end the OPDA's control over the resources of the Treasury. The republican government, while acknowledging the debt of the Ottoman state, declared fiscal sovereignty over its resources.

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<sup>24</sup> *The Times*, 1910, 15.12.

<sup>25</sup> Parvus, 1912, July.

#### 4. Contemporary discourses and debates

In the twentieth century, most of the early works on the Ottoman foreign debt and the OPDA were by western historians.<sup>26</sup> In the 1960s and 1970s, however, there was a sudden surge of interest in the topic among Turkish academics as well. One reason was the changing political environment and strengthening anti-imperialist sentiment in the country, which led left-leaning scholars to draw parallels with the Ottoman experience in their call for an independent Turkey.<sup>27</sup> Moreover, in this period the foreign debt resurfaced as a major issue in daily politics. After the 1980s, interest in the question revived with every major foreign debt crisis, and comparisons between the OPDA and the IMF were drawn.<sup>28</sup>

These works mainly portrayed the OPDA as one of the prime causes of Ottoman underdevelopment and a serious obstacle to modernization in the nineteenth century. The argument was partly valid, but it missed some important elements of the real story. Above all, the establishment of the OPDA was a consequence of Ottoman backwardness, not a cause. Aside from the lavish expenditures of the Sultans, the main cause of foreign borrowing was the Ottoman state's inability to match the technological and military developments of the west, which made it increasingly vulnerable to foreign military threats. The significant revenue increase that the OPDA eventually achieved also points up the administrative and organizational backwardness of the Ottoman state machinery.

The OPDA unquestionably was a factor in the underdevelopment of the economy, especially given its role in transferring surplus from the Empire to the core economies while securing and furthering the interests of the countries directly or indirectly represented. OPDA's *raison d'être* was collecting taxes and other revenues to pay

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<sup>26</sup> Blaisdell, 1929; Du Velay, 1978 [1903]; Morawitz, 1978 [1904]; Novichev, 1979 [1937]; Roumani, 1927.

<sup>27</sup> For influential critiques of the OPDA as an agent of western imperialism, see Avcioğlu, 1973; Berkes, 1975.

<sup>28</sup> Gürsoy, 1984; Kazgan, 1985; Kiray, 1999; Önsoy, 1999; Yılmaz, 1996.

the amounts due to the foreign bondholders. In this case, more efficient tax collection meant not only a heavier tax burden on the already impoverished agricultural population but also an increased capital outflow. Furthermore, by limiting the state's control over the appropriation and utilization of the economic surplus, it also terminated the sporadic efforts of the Porte to recreate Ottoman centralism.

On the other hand, it is difficult to deny that OPDA also contributed significantly to the modernization of the economy. It initiated organizational reforms and technology transfers that not only facilitated growth in the sectors under its responsibility but also generated positive externalities for others. Novelties introduced by the OPDA, such as double-entry bookkeeping, were later adopted by the Ottoman state.<sup>29</sup> In this context, the foreign-controlled Administration contributed to the development of state entrepreneurship, thus helping form the backbone of the early republican economy.

Another major element of the political discourse on the OPDA is its portrayal simply as the official agent of foreign powers or western capitalism.<sup>30</sup> The problem with this analysis is that it perceives western capitalism as a monolithic entity, overlooking the fact that different capitalist groups, even from the same country of origin, could have conflicting interests on a variety of issues. In the case of the OPDA, the members were designated directly by the bondholders of the respective countries. That is, above all they answered to the bondholders. There is no doubt that these representatives were also under the influence of their governments and in some instances were handpicked by the latter. But on many occasions they also came into conflict with the broader policy aims of these governments in order to serve the interests of the bondholders, which were closely tied to the performance of the Ottoman economy.

Another recurrent theme in the nationalist critique is the claim that foreigners forced loans on the government at usurious rates.<sup>31</sup>

<sup>29</sup> Güvemli, 2000: 53-55, 221-22; Karaarslan, 2004.

<sup>30</sup> Avcioğlu, 1973: 125.

<sup>31</sup> Mutlucağ, 1967.

The high spread on the Ottoman loans is a fact beyond dispute. But to say the loans were forced on the government is misleading, absolving the Ottoman administration of its responsibility for financial mismanagement. The fact is that Ottoman governments never complained of being forced to borrow unnecessarily. It was just the opposite. The Porte's great problem was to ensure access to desperately needed foreign funding. The high interest rates mainly reflected the mistrust of the Ottoman finances. Indeed, unable to command the confidence of the financial markets on its own merits, the Ottoman government strove to benefit from the credibility of the OPDA. Therefore, when necessary, the government voluntarily transferred additional revenues to the OPDA in order to raise new loans on more favorable terms.

In the heated environment of today's Turkey, reference to Ottoman times is an integral part of daily political discourse on both sides. President Erdoğan is often compared to the Ottoman Sultans, Abdülhamid II in particular.<sup>32</sup> Sultan Abdülhamid, with his adoption of Pan-Islamism on the one hand and iron-fisted policies on the other, represents a major dividing line between Islamists and secularists. During his 33-year reign, which started the year after the Ottoman default, he oversaw great losses of territory and also, with the establishment of the OPDA, of fiscal sovereignty. On many occasions Erdoğan himself has expressed his admiration for Abdülhamid, calling him "the last universal emperor of the world."<sup>33</sup>

According to the opposition, lavish government expenditures and the accompanying rise in foreign debt also bear similarities with the late Ottoman era. Over the last few years, Erdoğan has ordered the construction of two very large mosques and called them the new "*selatin*" (originally meaning Sultan's) mosques of Istanbul.<sup>34</sup> But the

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<sup>32</sup> Among many books and articles, see Cagaptay, 2017, and Dilipak, 2015. Portrayal of Erdoğan as the new Sultan of Turkey is also not uncommon in international media. Recently, the *Economist* (2016) featured a cover illustration of Erdoğan in a Sultan's robe over the caption "Democrat or Sultan?".

<sup>33</sup> Sabah, 2018, 11.02.

<sup>34</sup> Evin, 2012, 23.07.

most controversial expenditure, without a doubt, is the 1,000-room presidential palace in Ankara. Official sources estimate the cost of the palace at TRY 1.4 billion,<sup>35</sup> while unofficial estimates run as high as TRY 4.5 billion (around \$1.2 billion).<sup>36</sup> Critics often recall Abdülmeçid's passion for building palaces along the shores of the Bosphorus and the disastrous consequences for the Treasury, which eventually caused the Ottomans to relinquish fiscal sovereignty.<sup>37, 38</sup>

Turkey is an upper-middle-income country with a large savings gap. Erdoğan's mega-projects (railways, freeways, bridges, airports), to which he owes a good part of his electoral success, are financed by foreign credit. The build-operate-transfer model used in many of these projects resembles that of the Ottoman railway projects, in which the government pledged to make good any revenue shortfall. Those projects required the transfer of additional sources of revenue to the OPDA as surety. Today, no such pledge is made, but in the event of recession these contracts could, potentially, aggravate the problems of the Treasury. Among these projects, Marmaray – the subway system under the Bosphorus – stands out as the most prestigious completed under Erdoğan. At the inauguration ceremony, the project was presented as the realization of a "153-year dream", envisioned by Sultans Abdülmeçid and Abdülamid II, who had commissioned French architects to draw sketches for an underground tunnel connecting the European and Asian parts of Istanbul.<sup>39</sup>

Erdoğan's mega-projects are the prime driving force behind Turkey's construction boom. Many economists question the sustainability of this building-led growth, pointing to the growing current account deficit and the country's ever-increasing appetite for foreign loans, which in many ways recalls the Ottoman experience. Under

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<sup>35</sup> *Dünya*, 2017, 31.10.

<sup>36</sup> *Diken*, 2015, 05.06.

<sup>37</sup> *Yeni Asya*, 2014, 07.11.

<sup>38</sup> *Süzer*, 2016, 31.05.

<sup>39</sup> *Railway Gazette*, 2013, 29.10.

Erdoğan, Turkey's gross external debt soared from \$130 billion in 2002 to \$438 billion in 2018, while over the same period the public external debt increased from \$64.5 billion to \$130 billion.<sup>40</sup>

Interestingly, despite this snowballing foreign debt, government officials regularly claim to have ended more than a century of foreign control over the Turkish economy, ever since the OPDA, by paying off the country's loans from the IMF.<sup>41</sup> Actually, in recent years the IMF debt has been only a minor portion of the total external public debt, and what the government did was to replace it with a significantly larger private sector foreign debt. This misleading argument in any case served well as propaganda.

In political discourse it is fairly common to start a discussion on the IMF by likening it to the OPDA. While there are indeed striking similarities between the two organizations, there are also some essential differences. The OPDA was a private organization that had vested interests in the Ottoman economy, which in a number of cases led its members to defend protectionist policies, even against the interests of their home governments. The IMF, by contrast, has a worldwide agenda that includes maintaining global financial stability and facilitating international trade. The structural adjustment policies tailored to these priorities have not infrequently inflicted irrevocable damage on national economies.

Another recent development that once again brought the issue to the fore has been the sovereign wealth fund established by Erdoğan. Sovereign funds are generally formed by countries with trade surpluses, in order to create alternative investment outlets. As a country with a large and persistent trade deficit, Turkey certainly does not belong to that group. Unlike its counterparts elsewhere, however, the Turkish sovereign fund was instituted for the purpose of raising new loans on better terms, secured by the fund's revenue stream. Accordingly, government shares in prominent Turkish corporations have been transferred to the sovereign wealth fund.

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<sup>40</sup> Treasury, 2018.

<sup>41</sup> Ak Parti, 2014, 10.12.

In a comparable manner, the Ottoman government hypothecated its most liquid and credible revenue sources to secure bond issues. Where the bonds were backed only by the general revenues of the Treasury, interest rates were considerably higher. In the OPDA period, this practice continued through the funds channeled to the foreign-controlled Administration. As the government sought additional loans in Europe, whenever possible it chose to transfer additional revenue sources to the OPDA and borrow against its revenues.

## 5. Conclusion

The Ottoman experience of foreign borrowing is an aspect of Turkish history that is not easily forgotten; indeed, it is often cited as a cautionary tale with a catastrophic ending. In a country like Turkey, with a persistent current account deficit funded by foreign capital inflows and mounting external debt, this story has never lost relevance. Today the Turkish political scene is deeply polarized along the religious-secular divide. The conservative government enthusiastically promotes the revival of Ottomanism and reinterprets history accordingly. The opposition, on the other hand, endorses secular republican values and highlights the shortcomings that ultimately brought the Ottoman Empire to its demise. That is, the two sides have quite different takes on the story. The conservatives emphasize the incompetence of the bureaucrats and the conspiracies of western imperialism, downplaying the systematic failures of the Ottoman state apparatus. Secularists, instead, focus on the backwardness of Ottoman institutions and the inability of the Ottoman state to match the advances of the west as the key factors that pushed the country into the hands of western imperialism. There is one thing both sides agree on: the debate is no longer about the past, but about the future.

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