

*The Economic Impact of the Capitulations: the Middle East and Europe: a Reinterpretation **

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The relationship between the Middle East and Europe goes back to ancient history and ranges from temporary trade relations to long-term domination and/or occupation of one party by the other. The relationship, however, has been discontinuous in the sense that the specific parties have changed over time, the territories affected have been modified, and the nature of the contact has been altered. Nevertheless, the relationship has at all times been complex and multipurposed, touching on politics, economics, religion, culture or some combination of these. The Capitulations (Caps) have been one medium of such interaction. The meaning of Caps has been unclear, but the Caps have usually represented legal ties between the parties, which in the relationship with the Ottomans have tended to constrain the Ottoman decision makers and cause distortions in the market. Confusion regarding the Caps relates to the meaning of the concept, terms, substance, and the implications of their enforcement.

The meaning of Caps has been influenced by the historical context in which they were exercised. For example, Ottoman Caps with Europe were usually concluded between governments and the involvement of individuals was indirect, in contrast to the CAPITULACIONES which were "agreements or contracts between the Spanish Crown and an individual generally used after the XVth century to define purposes and goals of exploration, conquest, and repopulation of the New World".¹ Another general view of the

* This project was started in collaboration with Professor Ibrahim Poroy; however, his attention and energies had to be redirected to other projects and he has asked to be relieved of his responsibilities. I am grateful for his participation in initiating the project and for his major contribution to the "Content Analysis" section of this paper.

¹ THE ENCYCLOPAEDIA BRITANNICA MICROPAEDIA, Vol. 2, Chicago: 1974, pp. 357-8.

Caps is that they were agreements of extraterritoriality to protect contained foreign settlements in given countries, with little relation to religion or economic concessions and privilege.² Probably the most extensive survey of the history of Caps as extraterritoriality has been presented by Sousa, who accepts as well as argues in favour of that interpretation.³ Yet it is evident that

the word Capitulations is especially used to indicate the treaties that the Porte has entered into with the nations of Christendom. Perhaps the use of this word was meant to express that the Porte did not intend to bind itself to perpetual peace with the Christian nations, but only to consent to truce or armistices, depending for their duration upon its good will. It was further meant to indicate that these were not stipulations between two contracting parties, entered into for their reciprocal good, but only grants of privileges and immunities that the Porte made, out of its generosity, to the nations with whom it dealt.⁴

The leaders of the Moslem nations did not consider the leaders of these other nations as their equals and hence could not conclude treaties with them but could grant them privileges. To be consistent with this interpretation, the word Capitulations is sometimes tied to the word SULH in Arabic, which in this context is said to mean truce, standstill of arms, reconciliation, or autonomy, but not peace which is SALAAM; that is why Caps, not treaties, were concluded.⁵

As understood in Arabic, the term Capitulation has meant surrender, ISTISLAM, by one party, and/or privileges, IMTIAZAT, for another party. This interpretation applies when the conferring party is weak and the beneficiary is strong. It is possible, however, that when the weaker party surrenders it also receives privileges in the form of protection. In neither case does the term imply an agreement or treaty between equally powerful sovereign nations. It is our hypothesis that the concept has evolved over time from meaning a privilege or protection of the weak by the strong after the latter had surrendered, to meaning surrender of the weak and offer of privileges to the strong as homage.

Probably the most deeply ingrained perspective is one which looks at the Caps in the context of religion and culture. According to Van Dyck, "the intercourse of the Christian world with the Mohammedan world is not founded upon the principle of the law of nations... Their relations with one another

² C. BIE RAVNDAL, *The Origins of the Capitulations and of the Consular Institutions*, 67th Congress, 1st session, Senate Document no. 34, Washington, 1921.

³ NASIM SOUSA, *The Capitulatory Regime of Turkey*, Baltimore: The Johns Hopkins Press, 1933.

⁴ EDWARD ABBOTT VAN DYCK, *The Capitulations*, Executive Documents, Senate of the U.S. Vol. 3, # 3, p. 24.

⁵ *Ibid*, p. 25.

had to be regulated solely with a view to political expediency and in accordance with treaties entered by them". From the Moslem point of view the world is divided into "House of Islam" and "House of War". Similarly, European jurists of the Middle Ages "did not recognize any international law with Moslems, but held that there ought always to be war with them... Thus it is up to the present time, the law of nations as known and professed throughout Christendom, has not been applied in the relations between Turkey and the Christian powers".⁷ Van Dyck illustrates his observations by looking at various capitulations in history going back to the "Testament of [Prophet] Mohammad" which granted protection to the Christians in the occupied territories.

Contrary to Van Dyck's interpretation, Islam distinguishes between four groups: the Moslems, the Kitabys, the Must-a'mins, and the Harbys. The Moslems are those who believe in Islam. The Kitabys believe in the same God, have a holy book and have received revelations. These are the Christians and Jews and are to be offered protection against the payment of a tax. The Mustamins are "the temporarily residing foreigners" in Moslem territory. These should be given protection and safe conduct, and be exempted from tax if they reside less than a year; beyond the year they become subject to the foreign resident tax. The Harbys are the non-believers against whom war should be continuously waged.⁸ However, the Caps originating with the Moslems were "letters of privilege" or "imperial diplomas containing sworn promises... They were not supposed to constitute a source of reciprocal obligation, but purely gratuitous concessions and favors granted by the Moslems to Christians, by virtue of which the latter were rather tolerated than authorized to come upon the soil of Islam".⁹ It is also apparent that the Caps were at first given only to friendly nations and continued to be so until the middle of the XVIIth century.

It may be tempting to equate the Caps with the Navigation Laws which prevailed in the mercantilist period and governed trade between Europe and the colonies in the East and West. The analogy, however, does not fit because the Navigation Laws related to trade and protected a country's own territories or colonies against other sovereign nations of relatively equal power which might have an interest and constitute serious competition in trade with the colonies. The Caps also differ from what has been termed imperialism or domination of the weaker underdeveloped areas by the stronger more developed countries for exploitation and/or settlement. This comparison may be possible in the case of the Caps of the XIXth century but certainly not to

⁶ *Ibid*, p. 8.

⁷ *Ibid*, p. 9.

⁸ SOUSA, *op. cit.*, pp. 40.

⁹ VAN DYCK, *op. cit.*, pp. 12-13.

those of the early centuries of capitulation.¹⁰ The Caps of the Ottoman Empire were conferred at first by the stronger power which had expanded into an empire, and which none of the beneficiary European countries could single-handedly subdue or dominate. Neither Britain nor France nor Russia could individually subdue the Sultan of the Ottoman Empire or take away his outlying imperial domains. Hence, the Caps may have been initiated as "economic privileges unilaterally and freely granted by the Ottoman sultans to the subjects of friendly non-Moslem states", but they evolved into concessions, not only expected but often demanded and imposed.¹¹

As to substance, the Caps have been interpreted as ways of expanding trade, removing economic obstacles and prohibitions, and cementing relations between nations. Sometimes they have been looked at as means of exploiting one nation by another, of supporting one class against another, or as the price paid by one party for benefits desired from another. The conception of Caps one adopts will no doubt influence the assessment of the effects. However, regardless of the conception adopted, several major questions remain to be answered. For instance, were the Caps unilaterally and freely granted and could they be withdrawn at will? Were they granted selectively in return for expected though unspecified benefits? Were the contents of the Caps biased against the local people in economic and business terms, and if so to what extent? Were they aimed at, capable of, or effective in retarding economic development [e.g., in Turkey and the Middle East as charged], or were they influential in promoting development? Finally, what externalities have resulted from the Caps [in the Middle East] concurrently with and after the Caps had been formally abolished, and who actually benefited and who lost, both among the nations and within them, and by how much?

It seems doubtful at this point that many of the Ottoman Caps were voluntarily or freely entered into by the Sultan, even though they may have been rationalized as necessary to protect non-Muslim subjects of friendly nations residing within the domain of the Muslim sultan. We question the idea that they were agreements of extraterritoriality since they directly affected the interaction between the foreign subjects and the Ottoman subjects. We also reject the assertion that they were based on reciprocity since most of the Caps seem to have been onesided. In contrast to these oversimplified views of the Caps, we consider the Caps as a dynamic process and visualize a number of scenarios as to what they might have meant according to time and place and distribution of power, as follows:

SCENARIO ONE: We may consider the Caps as a mechanism for the re-

¹⁰ The differentiation seems evident in LANCE E. DAVIS and ROBERT A. HUTTENBACK, "The Political Economy of British Imperialism: Measures of Benefits and Costs," *Journal of Economic History*, XLII, # 1, March 1982.

¹¹ Z.Y. HERSLAG, *Introduction to the Modern Economic History of the Middle East*, Leiden, 1964, pp. 42-46.

removal of trade barriers and promotion of free trade. In this case non-Muslim foreigners facing barriers in the domain of the Sultan might seek and receive protection such that the barriers to trade would be removed and they would be free to trade in areas and/or commodities previously not accessible to them. If so, one would expect an expansion of the market, easier entry and increased trade and specialization according to comparative advantage, with net benefits accruing to the participating parties. The distribution of benefits, however, may be biased in favour of the stronger party, as implied by the "imperialism of free trade", especially if the levels of technology of the trading parties are not equal, and if duality is already an important characteristic of the relationship between them. It is highly likely that the technologically more advanced party will dominate the market and exchange processed goods for raw material and natural resources, even to the extent of depleting these resources in the name of specialization and comparative advantage. Assuming, however, that a market exists and the benefits of free trade are evident, the protective Caps should progressively cease to be necessary and the free market should become self-sustaining.

SCENARIO TWO: Consider the Caps as a dual mechanism for the removal of trade barriers as well as for granting concessions. In this case the Caps would not only remove the barriers facing certain foreigners, but would also create barriers against all others, including possibly the natives, in favour of the privileged foreigners. It is possible that the privileges would be limited to certain commodities or activities in which there is no local competition; or they may be justified as inducements to introduce innovation, transfer technology, or increase the supply of those commodities and activities. In all these situations one might expect a net benefit for the relevant parties in the sense that at least one will benefit and none will lose. Whether such privileges are sustained at the expense of the local people may be measured by the pressures put on the authorities to extend the privileges, the degree to which similar privileges are reciprocated, and the extent to which the rates of return earned by foreign traders are comparable to the rates earned by local traders in the same market. If the rates earned by the foreigners are higher than those earned by local people, the Caps may be said to create barriers in favour of the foreigners to the disadvantage of the local people. One might argue that the foreigners usually supply capital which might not be available otherwise. The question then would be at what rate of return would it have been possible to mobilize such capital, how comparable was the realized rate of return with the expected rate and with the rate on the international market, and how much did the rate change as more capital had come into the country in the direction of equality with the international rate?

Looked at from another standpoint, we may be able to observe the impact of Caps on the natural resources of the conferring country by assessing: (1) the degree of utilization, processing, and resource conservation exercised; (2) the level of prices paid for these resources by the beneficiaries, compared with

the international market prices, and (3) the effects of exploiting the natural resources on the supply of technical skills, the transfer of technology, employment, and the infrastructure, as well as on the technological, financial and political independence (or dependence) of the native system and its capability to survive.

SCENARIO THREE: The Caps may be seen as a mechanism for the removal of barriers, conferment of privileges, and imposition of foreign monopoly or monopsony structures on the local economy. In this scenario exploitation takes the form of monopoly prices and excessive rates of return, access to otherwise inaccessible markets and territories, independence from the local institutions, and investment and depreciation benefits which otherwise would not be possible. The measure of such exploitation depends on whether the natives are allowed or able to share the market with the foreigners, whether other foreigners have freedom of entry to compete with those who have the privileges, and whether the privileges may be abrogated by the granting party as easily as they are conferred.

SCENARIO FOUR: This is the scenario we propose as the most relevant to place the Ottoman Caps in perspective. We visualize a system of Caps which begins as a set of mild friendly favours which eventually develop into exploitative imposed concessions. These concessions could be abolished only because the conferring party has been defeated and dominated, or because it has become strong enough to restore genuine independence. In other words, the effects of the Caps would reflect the dynamic distribution of power between the respective parties, as follows:

1. The Caps tend to be exploitative in proportion to their being imposed, and relative to the technological and power gaps between the respective parties: the more evident the imposition, and the wider the gaps, the higher the degree of potential exploitation will be.

2. The more exploitative the Caps are, the less willing the beneficiary party will be to modify the arrangements, and the more incentive it will have to strengthen and institutionalize them.

3. The more economically exploitative the Caps are, the more strongly they will be reinforced by noneconomic forces, such as educational, religious, cultural and diplomatic ties.

4. Exploitative Caps tend to distribute the costs and benefits differentially between the parties, and among the subgroups of these parties' economic and social classes.

5. Caps in general and exploitative Caps in particular tend to become institutionalized in the respective countries. They would undergo change or abolition only when the benefits are no longer as high and the costs as low as the stronger party expects them to be, or when the same benefits become obtainable from other sources or by other arrangements at lower costs.

6. The Ottoman Caps were unique in the history of such institutions because they were tools used by the emerging weaker European states against

the more mature and stronger Ottoman Empire, to gain economic and political benefits which otherwise would have been unattainable primarily because of the religious and ethnic differences.

7. The Ottoman Caps, especially those of the XVIIIth and XIXth centuries, began as extraterritorial agreements to govern the personal status of the foreigner but turned into comprehensive economic, social and political concessions favouring the Europeans. They also evolved from being tools of promoting free trade to become instruments of trade restriction and redistribution of benefits and influence in favour of the Europeans at the expense of the Ottoman Empire and its citizens. This redistribution may be observed by comparing the terms of trade enjoyed by Britain and France in their trade with the Ottoman empire and the rates of return on their investments in the Empire with those enjoyed on the international market. However, regardless of their net macro effects, the Caps favoured certain economic groups and individuals in Britain and France, as well as certain Ottoman groups and individuals who collaborated with the former.

8. Finally, while we suggest that the Caps had negative economic effects on the Ottoman Empire, we are not convinced that these effects were sufficient to explain the continued economic retardation or the political decline of Turkey and its imperial domains.

Most of these hypotheses are testable, assuming quantitative data can be found. However, in the meantime we have undertaken a content analysis to see whether the content of the Caps would lend support to the hypotheses and whether quantitative testing would be warranted. The content analysis is based on an historical survey of the provisions of the Caps and the economic and political conditions in which they were concluded, especially regarding the equality of power between the parties and the technological gaps between them.

CONTENT ANALYSIS: In terms of rights and obligations, the pattern of Middle Eastern Caps may be divided into three phases: Phase 1 included the Caps which were offered as favours by the stronger party to the weaker party, which could be withdrawn by the giver at will, and which served as a sign of homage or recognition of the power of that stronger party in a given sphere of influence. This phase prevailed in the XVth - mid XVIIth centuries. Phase 2 was when the Caps were offered to an equally powerful or threatening party on the basis of negotiation and compromise; this phase lasted roughly to 1800. Phase 3 prevailed when the Caps were virtually imposed because the demanding party had become too strong to resist and the conferring party too weak to refuse. This phase characterized the XIXth century relations between the Ottoman Empire and the European countries. Sousa has also looked at the Caps, but only as extraterritoriality, as passing through three phases, one prior to the Ottoman rule, the second from the beginning of Ottoman rule to XVIIth century, and the third since then. The first two periods witnessed reciprocal non-binding agreements; in contrast, the third

period was binding. Our proposal, however, looks at the Caps in a behavioural framework which reflects changes in the economic and political distribution of power.¹² We shall treat each phase separately.

PHASE ONE: THE CAPS AS A FAVOUR. The earliest known arrangements which may be considered a form of Caps may be traced back to what has been described as the "Testament of [Prophet] Mohammad" in which he gave protection to the Christians on condition that they pay tribute in the form of a tax called JIZYAH. This method of accommodation was followed in Islam, especially by the first four Caliphs. This form of protection was a grant from the strong to the weak, from the majority to the minority, and from the state to individuals, rather than from one nation or state to another. It is possible, however, that the victorious Muslims in this case realized the value of the non-Muslims as human capital to be protected and exploited, given that the non-Muslim minorities were often more accomplished than the Muslim majority. However, this form of protection may also be given in return for the payment of fees and the delivery of gifts to the victor, as was the case when Saladin issued Diplomas to the Crusaders as a sign of magnanimity which allowed trade, promoted a better public image, and secured the payment of fees and presentation of gifts. However, Saladin was dealing with kings or commanders of armies, rather than with individuals as in the previous case. This, in a way, was the model followed by the Ottomans in dealing with the religious minorities and non-Muslim foreigners. They dealt with them as communities or as parts of the nations of which they were subjects, but not as individuals.

The history of the Ottoman Empire overlaps with the history of the Arabs and Islam in the sense that some of the policies and trends observed in the Ottoman Empire were directly influenced by Arabs and/or Islam, as was the case with the Caps. The earliest recorded Caps of the Ottoman Empire were those of 1454 with Venice. At that time the Ottoman Empire was strong and expanding and this was reflected in the privileges granted to Venice. Among those privileges were mutual extraterritoriality, and free trade, with a 2 percent tax in each other's territory. However, Venice had to pay in addition "100 ducats for the right of entering Lepanto,...200 ducats for the right of entering the lands on the borders of [the] Empire,... [and] for the right of entering Scutari and Alessio 136 ducats, in all 436 ducats, which sum the governor of Constantinople shall be held to deliver to my [Sultan's] lordship". This agreement, however, shows the relevance of religion and that the Caps were related to the conflict between Islam and Christianity. Article VI proclaims "that all Venetian slaves shall be given up without ransom, except that, in case any slave shall have embraced the Mohametan religion, a ransom of 1,000 piasters shall be paid.". Article IX provides "that any goods originating

¹² SOUSA, *op. cit.*, p. 153 ff., Sousa's classification was discovered after our model had been formulated.

in the Mediterranean or Black Sea, and belonging to Christian nations may be carried anywhere and if sold, the tax of 2 percent shall be collected; but the Venetians are forbidden to transport goods belonging to Mussulmans", though no similar restriction is put on Muslims.¹³

Almost a century later, the Ottoman power was still on the rise and privileges were given only as a favour, though evidently France had become a power to take into consideration. It is apparent that the King of France was trying to acquire Caps from the Sultan but not until 1535 was he able to secure any such agreement. The Caps of 1535 provided for protection of the person and property and the freedom of movement for trade purposes on reciprocal bases on land and sea. The status of the person was protected by extraterritoriality, but this provision was insignificant for the Ottomans since there were no Ottoman settlers in French domains. Article VI specifies that "as regards religion, it has been expressly promised, concluded and agreed that the subjects of the King shall never be molested nor tried by the CADIS, SANJAKBEYS, or SOUBASHIS, or any person but the Sublime Porte". The Ottomans apparently gave these privileges in consistency with religion and tradition, in return for expected gifts and military help against Italy and the Habsburgs. Nevertheless, security of the French citizen in Ottoman territory (AMAN) was based on a special proclamation or (BERAT).¹⁴

Here we begin to observe a change in the relative strength of the Empire, not because the Empire was declining but because the European nations were growing in strength. The change in trend becomes more evident as we observe the 1580-81 Caps with Britain which provided for freedom of movement by land and sea, protection against molestation, any extra taxes or payments other than those governed by law and custom, and for the appointment of consuls who shall decide disputes among the British nationals in the Ottoman domains and apply British law to them. It is admitted, however, that the British government was too weak to deal with the strong Ottoman Empire and therefore gave a monopoly power to the Levant Company to represent the British Crown in that empire. In return for these privileges the Sultan and his court expected gifts from the Levant Company as representative of the British government on specific occasions, though the British government would not acknowledge any involvement with the presentation of gifts which might represent the payment of a homage.¹⁵ In addition to the gifts the Sultan was to receive in trade from Britain shipments of iron, steel, tin and brass which he needed for armament in the war with Austria.

The relative strength of the Ottoman and weakness of the European pow-

¹³ RAYNDAL, *op. cit.*, Appendix.

¹⁴ *Ibid* and Stanford Shaw *History of the Ottoman Empire and Modern Turkey*, London, New York and Melbourne: Cambridge University Press, 1977, I.

¹⁵ ALFRED C. WOOD, *A History of the Levant Company*, Frank Cass and Co. Ltd., 1964; Shaw I, *op. cit.*

ers was evident throughout the XVIth century in the sense that the Europeans had to seek the privileges and it was up to the Sultan to grant them. In 1612 the Dutch entered trade activity with the Ottomans and sought to have the same Caps as existed with the Venetians, French and British, but these latter were willing to pay the Sultan the sum of 10,000 *chequins* to prevent such an agreement. However, the Dutch were able to outbid them with "more lavish donations and alluring prospects of ships and munitions to be provided by the Hollanders for the sultan's service.. ." The Caps were conferred in July 1612 and were similar to those of other European countries.¹⁶ The relative weakness of the European powers is also displayed by their inability to prevent the incursion of officials and pirates on their subjects and the apparent indifference [or inability] of the Sultan to enforce the Caps and guarantee the promised protection. These pirates "pushed their raids through the straits of Gibraltar to the very coasts of England and Ireland, and the toll of English ships and captives mounted with each year. From 70 to 100 of these footpads of the seas belonged to Algiers alone, and between 1609 and 1616, 466 English vessels were captured and their crews enslaved".¹⁷

This phase, however, was coming to a close. The Ottoman Empire was going through domestic turmoil with the Dervisme, Celali and Sufi rebellions underway, the lack of a dependable fleet, and the hazards of famine and inflation which added to the burdens of war and European pressures. The Europeans evidently sensed the weakness of the Ottoman government and began to take matters into their own hands. For example, beginning in 1620 Britain decided to protect itself against those incursions by force. The British sent a fleet to the Mediterranean against the Algerians and Tunisians but they failed "to secure restitution of the 150 English ships and their crews captured by the pirates...or to destory the Algerine vessels in the harbour by means of fire ships..." Finally, the British had to accept an agreement with Algiers and Tunis, with the mediation of the Sultan, according to which "England was to be permitted to maintain a consul at Algiers...all English slaves were to be released, their owners being compensated", and mutually good treatment to be accorded to each other. However, the agreement was of little practical use because it was not respected and could not yet be enforced.¹⁸

PHASE TWO: RELATIVE EQUALITY OF POWER AND REASSESSMENT OF THE CAPS. This phase extends roughly from 1650 to 1800 with regard to the relations between the Ottoman Empire and the European countries. The relationship with the United States in the last quarter of the XVIIIth century reflects phase one as analyzed above. This period reflects the emerging European power whether in colonial expansion, economic and tech-

¹⁶ SHAW I, *op. cit.* The initiation of the Caps is uncertain but the conclusion of the agreement was in 1612 and the most favoured nation privileges were extended in 1613.

¹⁷ WOOD, *op. cit.*, p. 60.

¹⁸ *Ibid.*, 62.

nological development or in the mercantilistic control of trade by the respective countries. The Navigation Laws of Britain and their equivalents by the other countries represent a new pattern of confidence by these countries in their ability to protect their interests or compete in the international market. Probably the first sign of the shift in relative distribution of power between the Ottomans and the European countries came with the failure of the Ottomans to secure exemption from the restrictions of the Navigation Laws as a form of reciprocity for the privileges they accorded Britain: goods coming from the Ottoman Empire were subject to the same restrictions as any other goods, even though the Caps accorded to Britain were now becoming more comprehensive and secure. The Caps of 1675 provided Britain with comprehensive protection of British subjects, extraterritoriality, and full freedom of trade in the dominions of the Empire. The British did not have to pay any extra duties or deliver gifts or accord reciprocity as in previous periods. Some of the benefits to Britain, however, were at the expense of France rather than of Turkey. Britain now acquired the right to protect the interests of other Europeans, a role previously assumed by France.¹⁹

The XVIIIth century was a period in which the Ottoman relations with the European countries were based on negotiations and alliances or counter-alliances, although in practice the alliances with Turkey were to allow for mediation with a third party rather than to take sides against that party. The Ottoman Empire, as a Muslim power, was considered an antagonist of Christian Europe and therefore none of the European countries would form an alliance with it against another Christian nation. Hence, the willingness to mediate had an unusual significance in this context. The defeat of Turkey in the war with Austria in 1683 led to the Treaty of Karlowitz according to which Austria won Caps privileges covering religion and other relations. Freedom of worship was guaranteed for Christians and Austria gained the right to interfere on their behalf, with no reciprocity accorded in return. These Caps seemed likely to be imposed but the war with Austria was an ongoing process and therefore such a conclusion would be unwarranted. In fact, these Caps had to be reiterated, in 1691 with mediation from France and England, and in 1718 and in 1747-8 when England mediated for peace with Austria. These occasions of mediation tended to coincide with periods of internal weakness in the Ottoman Empire. However, each time the Caps were renegotiated, the Ottoman authorities surrendered a little more of their sovereignty in their own domain.²⁰

The shifting balance of power against the Ottomans continued and became more conspicuous when Russia gained the Caps privileges in 1711. Though these Caps began with a most favoured nation agreement, Russia evolved into the most formidable force against Turkey. In 1774 Russia be-

¹⁹ SHAW I, Ravndal, Appendix.

²⁰ SHAW I.

came the protector of the Orthodox churches, Greek, Russian and Armenian. For the first time Turkey was forced to pay indemnity to Russia for war in the Crimea, which gained independence from Turkey at this time. In addition to its loss of territory, Turkey now agreed to give the Czarina of Russia the right "to build and protect an Orthodox church in Istanbul — which was subsequently interpreted as giving Russia the right to protect all Orthodox Christians in the empire as well as the population of the Principalities — and thus the right to intervene in Ottoman internal affairs for its own advantage during the century that followed".²¹

The end of the XVIIIth century signified an end of a phase in which the balance of power and the characteristics of the Caps were still uncertain. The United States of America which had just come into existence paid specified amounts of money to the Barbary States (Tripoli and Morocco) to gain the right to trade in the area. In 1786 the U.S. agreed to pay the sum of £ 33,000 to the Barbary States. In 1795 the U.S. paid \$ 922,000 in money or timber, in presents, for the officers of the Bey in redemption of enslaved seamen and in a consular gift every two years. The last payment was in 1797-9 to the Bey of Tunis in the sum of \$ 107,000. In 1805 the U.S. terminated payments and when payments were demanded, the U.S. President replied with a naval squadron and threat of war on land and sea against Tripoli. In 1815 a naval force was sent to Algeria to terminate payments of a tribute to a Muslim ruler. From then on agreements were made by negotiation. By this time Austria, Russia, Britain, France and the U.S. had used or threatened to use force to secure the Caps, though sometimes these privileges were negotiated as mutually agreed upon arrangements.²²

PHASE THREE: THE PERIOD OF IMPOSED CAPS. The imposition of Caps in this period was in part by force and in part as a reflection of the growing weakness of the Ottoman Empire economically, technologically, and organizationally. Though armed conflict continued to erupt between Turkey and its neighbours as well as within its own domains in the Middle East, its more serious difficulties arose from its internal weaknesses. The problem of succession continued to be a sore point in the body of the Empire. The minority components of the population continued to be a destabilizer, given the confessional character of the state (Islam or one theology of Islam as the state religion), while the extended boundaries of the Empire made defence extremely difficult. However, the most strategic weakness was continued traditionalism and the failure of the economy and technology to develop and allow Turkey to compete with the emerging industrial countries of Europe. These various problems overlapped in significance as cause and effect but in the dynamics of the XIXth century they tended to form a vicious circle: traditionalism inhibited development and underdevelopment reinforced tradi-

²¹ *Ibid*, 250.

²² RAVNDAL, *op. cit.*, Appendix.

tionalism. The European countries were, in the meantime, growing in economic and technological strength as well as in political and military capability. Therefore, it seemed logical that they would expect, demand, and secure privileges from the weaker party which eventually came to be known as the "sick man of Europe". The XIXth century Caps were reflections of this redistribution of military, economic and technological power until eventually the Empire was dismantled and its domains or spheres of influence shared by these emerging powers.

The beginning of the XIXth century heralded the advent of the U.S. as another power to contend with in doling out or surrendering Caps. Having disposed of the claims of Algiers and Tripoli for payment of fees and gifts, the U.S. directed its attention to the long-term relations with the Ottoman Empire. In 1830 a treaty was signed to promote trade between the two nations, and all its articles were reciprocal except two, those which dealt with the personal status of Americans in the Ottoman Empire and with the merchant vessels of the United States. The personal status of Americans was treated in the same way as was that of other foreigners with Caps. Merchant vessels of the U.S. had the same rights as those of most favoured nations in Ottoman territorial waters. Though reciprocity might have been implied, in neither case was it mentioned as in the case of other articles of the treaty.²³ At about the same time, 1826, Russian vessels acquired the right of freedom of movement in all Ottoman waters; this agreement was followed by the Edirne Treaty 1828-9 which awarded full Caps to Russia. In 1833 Russia acquired the right to dock at the Bosphorus freely.²⁴

A major shift in the quality of the relations between the Ottoman Empire and the European countries came in the 1830s when Britain took the initiative to change that relationship. In 1834 Britain pressured the Sultan to issue an Imperial Firman for the protection of English vessels sailing the Euphrates even though neither the Sultan nor the Governor of Baghdad seemed in favour of such freedom of navigation. The Sultan requested information from Baghdad on that matter but under pressure of Britain he felt obliged to issue the permit for two steam boats to navigate the Euphrates before any information or an answer from Baghdad was received. This imposition of the demand by Britain was followed by a reiteration of the Caps to Britain in 1838 and the abolition of all [Turkish Government] monopolies

of agricultural produce, or of any other articles whatsoever [especially opium, silk, tobacco and salt], as well as all permits from the local governors, either for the purchase of any article, or for its removal from one place to another when purchased; and any attempt to compel the subjects of Her Britannic Majesty to receive such permits from the local governors, shall be considered as an infraction of treaties, and the Sublime Porte shall im-

²³ *Ibid.*

²⁴ SHAW II, *op. cit.*

mediately punish with severity Viziers and other officers who shall have been guilty of such misconduct.²⁵

The second half of the XIXth century witnessed the progressive decline of the Ottoman and ascendancy of the European powers and consequently the progressive accumulation of rights and privileges of foreigners in Ottoman domains. The surrender of power was brought about by corruption in the Ottoman Empire, continued pressures on it from the outside, and the easy access it had to loans which were used unproductively and created a high degree of dependence of the Ottomans on their lenders. By 1875 the amortization and interest charges of these loans were higher than 50 percent of all annual government revenues. Turkey could not pay its debts and a moratorium was declared on all foreign debts. This was the straw that broke the camel's back. In 1879 the foreign creditors took full advantage of their financial hold on Turkey and created the Ottoman Public Debt Administration which was composed of English, Dutch, French and German representatives. This administration preempted the use of specified taxes in order to repay the loans, regulated the expenditures of the Sultan and his government, and planned the financial affairs of the Empire while various domains of the Empire were being occupied by the individual European countries.²⁶

INDICATIONS OF ECONOMIC BENEFITS AND COSTS: It is possible to argue that the Caps helped to expand trade by opening otherwise closed markets to the merchants of Europe and America and therefore should have been beneficial to the trading partners. That would be so if the trading partners were of equal strength and competitive power, but the facts indicate otherwise. In most cases the trade was governed by concessions to companies which behaved like monopolies. Though these companies had to deal with governments in the Middle East as a counterpart, they were backed by their home governments. We should expect therefore the terms of the Caps to be influenced by the distribution of power between states, but the economic benefits accruing to the companies would depend on their monopoly power and the volume of the trade. We propose that while the terms of the Caps have varied from one phase to another, the economic benefits for the concessionaire companies remained relatively high so long as they could maintain their competitive power vis-à-vis other companies. In other words, their benefits were independent of the Caps phases.

The issue of benefits and costs may be approached also from the aggregate national standpoint. Did Turkey gain or lose? Did Britain gain or lose? These questions, however, can hardly be answered solely on the basis of economic and material criteria; political and national survival, alliances, spheres of influence, and colonial expansion were frequently important considerations in the

²⁵ VAN DYCK, *op. cit.*

²⁶ SHAW II, *op. cit.*

national policies of the respective countries. Furthermore, the lack of data for a major part of the life of the Caps makes it virtually impossible to measure these costs and benefits. At this stage of the analysis we shall search for indicators that may serve as proxy measures of the benefits and costs accruing to the companies, national governments, and the consumers on both sides of Caps agreements.

If we look back to the first phase of the Ottoman Caps we find that the Caps were conferred as favours, but they were not free. They entailed the payment of large sums of money and the presentation of gifts to the sovereign and the high officials. These payments usually were made on behalf of the European sovereign, although the merchant companies usually paid the bill, as noted above in relation to the Barbary States. Such payments were continued through the middle of the XVIIth century for the European countries and the beginning of the XIXth century of the young American republic. There is little doubt that the powerful Ottoman government and the rulers of the Barbary States benefited from the transactions in the form of agreed payments, by levying duties on the trade, and by acquiring commodities they did not produce, especially armaments. Similarly, the European governments sold the concessions to their own companies for specified fees, collected duties on the trade, and acquired commodities otherwise unavailable, in addition to the creation of employment for the export trade.

So far it appears that everybody benefited. The question, however, remains whether the benefits compared favourably with the costs incurred in the process. To the extent that the Caps were conferred voluntarily in phase one, no additional (military) costs were incurred. And to the extent that the companies paid for the gifts and other fees, the national governments may be considered net beneficiaries. It is true that these governments often had to provide protection for the convoys, especially on the high seas, but such protection was necessitated by piracy and national conflicts among the Europeans, rather than by the Caps; if anything, the Caps reduced the need for such organized armed protection.

The reality and magnitude of the benefits may be suggested by the evident ability and willingness of the companies and merchants to make the payments, and to choose this form of investment in preference to other forms. How can or why would the companies and merchants agree to pay for the gifts and bribes unless they had high profit expectations? Or why would they sink as much capital as they did in this trade, at the expense of other opportunities, if they did not receive relatively high returns? Actually they did realize high profit rates, sometimes reaching 300 or 400 percent on their investment. They were able to realize these profit rates as monopsonists and as monopolists in both the Ottoman Empire and in the home market for the respective imports and exports. In other words, the benefits to the companies and the national governments were at the expense of the local producers (sellers) and consumers (buyers) in the Ottoman and European home markets.

Precise evidence on the first phase is sparse and unsystematic. However, these same conditions prevailed in the second phase, even though there was a change in the distribution of national power between the respective parties to the Caps. The Caps were becoming bilateral, negotiated, and often reciprocal agreements. Payments for the Caps were no longer common and the European governments had to have military power to be able to negotiate on equal terms with the Sultan of Turkey. Nevertheless, these governments derived benefits from duties on trade, sale of concessions to the chartered companies, expanded markets and domestic employment, as well as from realizing larger spheres of international influence (colonialism or imperialism). The Turkish government lost the payments it used to receive in the form of gifts but it continued to collect duties on the trade. At the same time the Turkish government hoped to form alliances to fortify its position of power in the face of the growing strength of its neighbours who had their eyes on the Ottoman domains and resources, and who claimed to be protectors of the Christians and minorities in the Empire. The companies continued to derive benefits from high profits as they did before. This scenario may be illustrated with reference to the Levant Company whose activities overlapped the first and the second phases.

The Levant Company began its enterprise with a high degree of confidence that the profits would be high, which explains the Company's willingness to guarantee that its trade volume would be sufficient to pay the home government a minimum of £ 500 per year for six out of the first seven years; this was in the XVIth century. It also agreed to "bear all the attendant expenses" of the diplomatic mission to the Porte.²⁷ Profits in the early years were high, reaching 300 percent, and in the first five years the Company paid £11,359 in customs duties or five times the guaranteed sum. In 1619 the Company pledged itself to pay £4,000 a year to help defray the costs of the British military expedition against Algeria.²⁸

Among the Company's benefits was the chance to escape paying duties on the silk it imported from Turkey, on the assumption that the tax was paid by the sellers. However, when pressed for payment, the Company was willing to pay "110 purses" or the equivalent of \$ 55,000 as a settlement.²⁹ As a further indication of the lucrative benefits of trade under the Caps, foreigners were willing to pay as much as £ 2,000 for a *barat*, or protection, while residing and trading in the country.³⁰

British observers have criticized the profits of the Company as exorbitant, which led to the introduction of a bill in Parliament in 1744 to regulate it because

²⁷ WOOD, *op. cit.*, pp. 11-12.

²⁸ *Ibid*, 61.

²⁹ *Ibid*, 129.

³⁰ *Ibid*, 135.

the managers and directors of the Company had...for many years controlled the entire trade for themselves and their friends through the appointment of the general ships, and by the high prices they had demanded for English goods in Turkey had opened the way for the French to capture the market. As wool in France cost 2s. per lb. as against 9d. in England, and labour was no dearer in the latter country, it was clear that the Company ought to have been able to undersell French cloth. The same insistence upon large profits had also checked the consumption of Turkish goods in England.³¹

The economic impact of the Caps is probably most pronounced in the third phase which roughly begins in the XIXth century. In this phase the number of players is larger and the struggle for larger international markets was more acute both because of the expansion of the industrial revolution and the rise of free trade. Turkey was seen as a good target, given its relative backwardness and its dependence on the export of raw material; hence it became a major buyer of processed goods and seller of grain and other raw material.³² At the same time, the privileges conferred by the Caps were maintained and built on, not only to increase the benefits to the European countries, but also to weaken the power of Turkey. Contrary to the dominance of reason and the Enlightenment, "Masters of the Balkans and of Constantinople and the Straits, the Ottoman Turks were racially, religiously, and culturally dissimilar to the other political groups in Europe. Their eventual ejection from Europe was regarded as inevitable, either because of the desires of certain powers to extend their economic and strategic interests in the Near East, or with the object of relieving the Christians who bore the brunt of the partisan administration which was so characteristic of Turkey"³³ In the face of these forces, Turkey acted to please these powers, even though the policies followed by Turkey were rejected by the European powers for themselves. According to Puryear, "in contrast with the liberal Turkish capitalations, enthusiastic governments in other parts of Europe instituted protective measures to benefit the development of indigenous industry...[and] tariffs sprang up almost overnight throughout most of the continent after Napoleon. For four decades the rates, as a general rule, were increased rather than lowered..."³⁴ This, of course, was not surprising since Turkey still gave privileges to foreigners over its native merchants and consumers and it continued to do so in the XIXth century. On one hand, Turkey became a free trade area, under the pressure of the British, before free trade was accepted in England itself. On the other,

³¹ *Ibid*, 154.

³² ROGER OWEN, *The Middle East in the World Economy 1800-1914*, London: Methuen, 1981, pp. 9-19, 85.

³³ VERNON JOHN PURYEAR, *International Economics and Diplomacy in the Near East. A Study of British Commercial Policy in the Levant, 1834-1853*, Stanford: Stanford University Press, 1935, p. 2.

³⁴ *Ibid*, 108.

foreign merchants trading in Turkey continued to pay 3-5 percent on their exports and imports, while Turkish merchants had to pay 9-12 percent. The British merchants themselves admitted that the 3 percent duty was less than the trade could afford and much lower than charged by other countries on foreign goods. They themselves proposed an increase to help the Turkish Sultan survive.³⁵

The distribution of benefits between Turkey and its European trade partners was changing progressively against Turkey. According to the Austrian consul at Odessa, "At least the 1829 treaty [the Adrianople Treaty] did not give any preference to foreign manufacturers over the indigenous industry... Now a Belgian merchant pays five percent on goods sold in Turkey; a Turkish merchant pays twelve percent for exports or even for transport from one of the Ottoman States to another".³⁶ The 1838 Convention as well as the 1856 Reform, followed by the 1862 treaty simply added to the privileges of the foreigners in Turkey. The 3 percent duty paid by foreigners, compared with 12 percent paid by natives was generalized to a long list of items detailed by the Convention.³⁷ The British recognized the extended privilege they had secured for themselves. In his letter to Palmerston, Ponsonby who negotiated on behalf of the British government, said the benefits from the Convention were "as good as we have any right to desire and surpass everything that was to be hoped for".³⁸ The impact is evident in the volume of British trade with Turkey.

In 1827, the British sold goods to the value of \$ 7,500,000 to Russia, and only one-third as much to Turkey and Greece. In 1845, the sales to Russia had risen to \$ 10,750,000, but Turkey and Greece now purchased British manufactures valued at \$ 11,050,000. Four years later, sales to Russia declined to almost the 1827 figure, while Turkey's purchases alone from Great Britain amounted to 12,000,000... Turkey was becoming a relatively better customer of Great Britain than was Russia, a fact to be explained principally through the changes brought about by the Anglo-Turkish commercial convention of 1838.³⁹

"In 1848... 1,397 British ships of 358,422 tons entered or passed the same port (Constantinople). For 1856, it was reported that 2,504 British ships of 898,753 total tons entered or passed the port".⁴⁰

It would add little to survey further the distribution of benefits between Europe and the Ottoman Empire during the remaining years of the Empire. The story remains the same but more gravely so: the power of Turkey con-

³⁵ *Ibid.*, 117, 120.

³⁶ *Ibid.*, 126-7.

³⁷ JOHN MACGREGOR, *Commercial Statistics, II*, London: Whittaker and Co., 1847, pp. 37-43.

³⁸ PURYEAR, *op. cit.*, 124.

³⁹ *Ibid.*, 108-9.

⁴⁰ *Ibid.*, 127.

tinued to decline and the economic burdens of its dependence on the European countries continued to mount. The third phase of the Caps reached its peak when Turkey had to surrender control over its finances to the International Public Debt Administration appointed for that purpose in the 1881. The end result was by then imminent.

One question that remains to be explored is whether the Caps should be blamed for the dissolution of the Ottoman Empire or its economic retardation. The survey of the literature and the apparent evidence suggest that while the Caps had negative effects, they could not have been sufficient to cause the political decline or the economic retardation. Going back to the XVIth and XVIIth centuries, it seems that the single most important factor in retardation was the relative advance of the western countries and the inability of Ottoman industry to face the competition. Whether it is in wool or in silk or other crafts, it is evident that the Ottoman economy had a comparative advantage in exporting unprocessed material. This state of affairs was no doubt encouraged and sustained by the protectionist power of the chartered companies (e.g., the Levant Company) and the failure of the Ottoman authorities to protect their own, especially against dumping by foreign companies.⁴¹

The process of retardation and decline is complicated by the dynamics of the Ottoman economy and society as well. For example, as European influence and economic power expanded, the Ottoman market changed in taste in favor of the European products. The Ottoman producers were unable to satisfy the changing demand in quantity and quality. Even the state enterprises were handicapped by "ignorance, mismanagement, and abuse, and partially because of the Capitulations, which did not permit the protection of state factories", while much of the industry depended on foreign capital.⁴² As another observer has put it, the Ottoman policy had internal contradictions: an interest in mercantilist measures but no mercantilist structure nor the power to defend such a policy.⁴³

Two other factors should be taken into consideration to account for the decline and retardation: the segmented market and the war burden. The Ottoman market was highly segmented not only because of the skewed distribution of income in favour of a small elite, but also because of the racial and religious minority structure of society. For example, the Ottoman population in

⁴¹ BENJAMIN BRAUDE, "International Competition and Domestic Cloth in the Ottoman Empire, 1500-1650: A Study in Underdevelopment, *Review II*, # 3, 437-51; Murat Cizakca, "Price History and the Bursa Silk Industry: A Study in Ottoman Industrial Decline, 1550-1650," *Journal of Economic History*, XI, # 3, 1980, 533-550.

⁴² OMAR CELAL SARC, "Tanzimat ve Sanayimiz" (The Tanzimat and our Industry) in *Tanzimat* (Istanbul, 1941) reproduced in Charles Issawi, ed. *The Economic History of the Middle East, 1800-1914*, University of Chicago Press, 1966, p. 57.

⁴³ HALIL INALCIK, "The Ottoman Economic Mind and Aspects of the Ottoman Economy," in M.A. Cook, *Studies in the Economic History of the Middle East*, London: Oxford University Press, 1970, p. 59.

1855 was about 35 million people spread over Europe, Asia and Africa. Of these only 12.9 million were classified as Ottomans. The rest included Greeks (2 m.), Armenians (2.4 m.), Jews (.15 m.), Slavs or Slavonians (6.2 m.), Roumains (4 m.), Albanians (1.5), Tartars (.03 m.), Arabs (4.6 m.), Syrians and Chaldeans (.2 m.), Druses (.08 m.), Kurds (1 m.), Turkomans (.08 m.) and Gypsies (.21 m.). Reclassified by religion, which was more important in Ottoman policy than race, these groups were: Mussulman (21 m.), Greeks and Armenians (presumably Orthodox Christians) (13 m.), Catholics (.9 m.), Jews (.15 m.) and other sects (.3 m.).⁴⁴ These various groups often behaved as autonomous economic units rather than as parts of an integrated market. Both the mobility of factors and the economies of scale were often dampened because of these differences, to the disadvantage of the aggregate economy.

The burden of war, civil and international, must have been a major retarding factor. The Ottoman Empire was involved in war during 177.5 years between 1495 and 1918, or over a period of 423 years. There were 30 wars in all.⁴⁵ However, if we add the time used in preparing for war and in reconstruction or recovery, the war impact must be far greater than indicated by the war years alone. This burden is further aggravated by the fact that the Ottomans depended to a large extent on the import of arms and war material. Therefore, the possible expansionist effects of war on the economy were basically exported to benefit the suppliers of arms and material, at the expense of the Ottoman citizens who had to produce exportable raw material to pay for the war-related imports. Investment in domestic production no doubt suffered in the process.

CONCLUSION. Four main conclusion follow from the analysis: The Caps changed in content and purpose as the distribution of power between Turkey and the European countries changed, in favour of the latter. The Caps were more comprehensive than they were previously thought to be, going far beyond extraterritoriality to become an instrument for weakening the Ottoman Empire politically and economically, often to the advantage of entrepreneurs at the expense of the consumers. Though the data are limited, the available evidence lends support to our reinterpretation of the Capitulations as summarized above in scenario four, and while the magnitude of their impact remains to be measured with precision, their negative effects on Turkey and their positive effects on the other countries are clearly evident, as predicted by our interpretation. Finally, while the Caps must have contributed to the retardation and breakdown of the Ottoman economy, several other factors were more significant in causing and sustaining that process.

⁴⁴ L. LEWIS FARLEY, *Resources of Turkey*, London: Longman, Green, Longman, and Roberts, 1862, p. 3-4.

⁴⁵ JACK S. LEVY, *War in the Modern Great Power System, 1495-1975*, University Press of Kentucky, 1983, Table 41.