

BETWEEN STUMBLING AND FALL TOWARDS INSOLVENCY:
THE ENDEAVORS OF THE OTTOMAN EMPIRE IN THE 19TH CENTURY

A Master's Thesis

by

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December 2007

To My Family and My Burcu

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The Institute of Economics and Social Sciences
of
Bilkent University

by

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In Partial Fulfillment of the Requirements for the Degree of
MASTER OF ARTS

in

THE DEPARTMENT OF HISTORY
BİLKENT UNIVERSITY
ANKARA

December 2007

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master Arts in in History.

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ABSTRACT:

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December 2007

This thesis, at first, intended to analyze one aspect of the 19th century Ottoman economic history, particularly the possible impact of the 1873 Panic in Vienna, which is addressed as the first global financial crisis, on Ottoman insolvency in 1875. However, research on the reasons of the insolvency revealed more complex relations and deep-rooted problems.

In this thesis, firstly the reasons of financial disorder in the Ottoman Empire and road to foreign loans are explained. Later on, efforts of the Ottomans in order to overcome financial problems and their attempts for establishing banks and industrialization are analyzed. Afterwards, the reasons for the Ottomans' tardiness to establish banks and to construct railways despite the encouraging environment in the post-Crimean War period and the impacts of this delay are discussed. Besides, emergence of Vienna as a financial center beginning from the 1860s and its repercussions on the Ottoman economy are analyzed. Moreover, reasons for extensive foreign borrowings and attempts for railway constructions which were realized by the Ottomans beginning from the second half of the 1860s are explicated. Lastly, the impacts of 1873 Panic on stunning railway investments and the Ottoman insolvency are discussed. In the whole study, the interactions among actors and the changes in their roles throughout the period are taken into account.

Keywords: Ottoman, Economic Crisis, 1873, Foreign Loan, Banking, Railway, Insolvency, Galata.

ÖZET:

SENDELEME VE DÜŞME ARASINDA İFLASA DOĞRU: 19. YÜZYILDA OSMANLI İMPARATORLUĞU'NUN ÇABALARI

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Aralık 2007

Bu tez başlangıçta, dünyanın ilk uluslararası ekonomik krizi olarak kabul edilen 1873 Viyana krizinin 1875'teki Osmanlı iflasına etkisi olup olmadığını incelemek üzere yola çıkmıştır. İflasın nedenleri araştırıldığında çok daha köklü problemler ve çok boyutlu ilişkilerle karşılaşmıştır.

Bu tezde ilk olarak Osmanlı'nın finansal durumunun bozulma nedenleri ortaya konarak dış borçlara giden yol açıklanmıştır. Daha sonra, Osmanlı'nın finansal problemleri aşma yönündeki gayretleri ve sanayileşme ve banka kurmaya yönelik girişimleri incelenmiştir. Takip eden süreçte Kırım Savaşı sonrası oluşan olumlu havaya rağmen Osmanlı'nın banka kurma ve demiryolu yapmada gecikmesinin nedenleri ve bu gecikmenin etkileri tartışılmıştır. Ayrıca, 1860'lardan başlayarak Viyana'nın bir finans merkezi olarak yükselişi ve bunun Osmanlı ekonomisindeki yansımaları incelenmiş; Osmanlı'nın 1860'ların ikinci yarısından itibaren yoğun bir şekilde gerçekleştirdiği dış borçlanmaların ve demiryolu hamlelerinin sebepleri irdelenmiştir. Son bölümde, 1873 Krizi'nin dönemin en önemli atılımlarından biri olan demiryolu yatırımları ve Osmanlı'nın iflası üzerindeki etkisi tartışılmıştır. Tezin tümünde aktörler arasındaki ilişkiler ve süreç boyunca aktörlerin rollerindeki değişimlerin açıklanmasına önem verilmiştir.

Anahtar Kelimeler: Osmanlı, Ekonomik Kriz, 1873, Dış Borç, Bankacılık, Demiryolu, İflas, Galata.

ACKNOWLEDGEMENTS

Firstly, I would like to express my gratitude to Dr. Eugenia Kermeli for all her invaluable support, guidance and motivation without which this study would never have been complete. I am also indebted to the honorable members of the examining committee Prof. Dr. Özer Ergenç and Asst. Prof. Nur Bilge Criss.

My special thanks are due to all the academic staff of History Department who helped me to construct my vision of history, especially to Prof. Halil İnalcık, Prof. Stanford Shaw, Dr. Oktay Özel, Dr. David Thornton, Dr. Paul Latimer, Dr. Russell L. Johnson, Dr. Ahmet Simin, Dr. Necdet Gök, Dr. Mehmet Şakir Yılmaz, Prof. Gülriz Büken and Dr. Mehmet Kalpaklı.

I would like to acknowledge my great indebtedness to my sole roommate Sedef Yavuz Noyan for her patience and support during the preparation of this thesis. I would also like to thank my Head of Department Mrs. Hülya Tokgöz and my Director General Mr. Cüneyd Düzyol for their great understanding.

I am indebted to Cabir Duysak for his warm hospitality and support during my research in the Ottoman archives and to Dr. Hüseyin Al for his kind guidance. I would like to express my gratitude to my dear friends Hüsnü and Burcu Ada, Burcu Dıraor, Alperen Köseoğlu, Emrah Şahin, Mark Merlino, Nafiz Baysal, Adem Yazıcı, Derviş Sülkü, Sanem Şimşek, Seçkin Sevim and Polat Safi for their support and encouragement. I would also like to thank Bilkent librarian Namık Balcı and personnel of the 15th dormitory, especially to Nimet Kaya.

I would like to acknowledge here my great indebtedness to my family, Baki, Elif, Fatih, Pınar and Kerem Ali Karademir for their unfailing love, support and encouragement. Finally, but not at the last place, special thanks must go to my best friend Burcu Sarı for her encouragement, backing and tolerance of my capriciousness, and for being always there for me.

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LIST OF ABBREVIATIONS, SYMBOLS

BOA, İ.MMS.

Başbakanlık Osmanlı Arşivi İrade-i Meclis-i Mahsusa

BOA, A.DVN.MKL,

Sadaret Divân-ı Hümayûn Kalemi Mukâvele Belgeleri

BOA, İ.HR.,

Başbakanlık Osmanlı Arşivi İrade-i Hariciye

BOA, Y.EE.,

Başbakanlık Osmanlı Arşivi Yıldız Esas Evrakı

BOA, İ.DH.,

Başbakanlık Osmanlı Arşivi İrade-i Dahiliye

BOA, A.MKT.UM.,

Sadaret Mektubî Kalemi Umum Vilayet Yazışmalarına Ait Belgeler

BOA, A.MKT.NZD.,

Sadaret Mektubî Kalemi Nezaret ve Devâir Yazışmalarına Ait Belgeler

MONETARY RATES:

£1: 1.10 liras: 25 francs

1 lira: 100 kuruş (piastres)

1 kese: 500 kuruş

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CHAPTER I:

INTRODUCTION

1.1. Structure of the Thesis

This thesis, at first, intended to analyze one aspect of the 19th century Ottoman economic history, particularly the possible impact of the 1873 Panic in Vienna, which is addressed as the first global financial crisis¹, on Ottoman insolvency in 1875. As the ties of the Ottomans with Vienna were deep, the 1873 Panic affected both foreign loans and railway investments. Right after the Panic, the Austrian banks which were established in order to carry out railway investments in the Ottoman Empire had serious financial difficulties. As a result of the Panic, Austro-Ottoman Bank was compelled to merge with the Imperial Ottoman Bank, whereas the Société Austro-Turquie went bankrupt.² The effects of the Panic were not limited to these two events. As a result of the Panic, Ottomans could neither find the necessary funds to repay existing obligations nor

¹ According to Kindleberger Panic of 1873 precedes 1890 and 1929 depressions both of which were followed by “fairly deep depression on a global scale”. Charles P. Kindleberger, *Historical Economics: Art or Science?* (Berkeley: University of California Press, 1990), 310.

² Hasan Ferid Bey, *Nakit ve İtibar-ı Mali*, 3. Cilt (Bankacılık) (İstanbul: Matbaa-i Amire, 1334), 352.

to complete the railway constructions which were started a couple of years before the Panic.

Research on the subject, has shown that there really was a relationship between the Panic of 1873 and the moratorium of 1875. However, this relationship was not enough to explain the whole mechanism of the financial collapse of the Ottoman Empire. The reasons behind the collapse were related to multidimensional and more complex relations and deep-rooted problems of the Ottoman Empire.

At this point, financial dependence of the Ottomans and beginning of foreign loans and the reasons behind these deserved special attention. On the other hand, when we consider that Vienna emerged as an important center for railway speculators of the time³, the interest of the Ottomans in railways and its reasons should also be properly investigated.

The 19th century has been studied by many historians since it represented the fall the Ottoman Empire.⁴ Due to the complex structure of the century, the studies emphasize a variety of subjects; but mainly the imperialistic ambitions of the Great Powers of the time, ‘under-development’ or ‘dependency’ of the Ottomans, expenditures of the Palace or thoughtless borrowing from abroad are stressed. Certainly, most of these issues played important roles in the collapse of

³ Charles P. Kindleberger, *A Financial History of Western Europe* (London: George Allen & Unwin, 1984), 240-248. Rondo Cameron and V.I.Boyvkin, *International Banking 1870-1914* (New York and Oxford: Oxford University Press, 1991), 329, 531. P.L. Cottrell, “London Financiers and Austria 1863-1875: The Anglo-Austrian Bank,” *Business History* 11, no.2 (1969): 115.

⁴ In Toprak’s words, it is ‘the decay paradigm’ which is being raised by the historians. In fact, Toprak argues that the Ottoman case can be better understood within the context of a more dynamic process of ‘change’ versus ‘inertia’ rather than decay. Zafer Toprak, “The Ottoman Realities and Economic Mind in the Age of Nation State (1839-1914),” 1. Online paper available on <http://www.econ.uoa.gr/UA/files/811318924..pdf> (accessed on 11 December 2007).

the Empire, or say in insolvency; however the question is to look into which one was more dominant over the others. In other words, what was the main reason for insolvency or how did the Ottomans come close to the brink in almost two decades, after the first foreign loan at 1854? As a result, it should be mentioned that most of the issues raised by the historians are far from reflecting the whole picture.

Therefore, in order to understand the main mechanism of insolvency, one should investigate the interactions of actors and changes in their mentality as well as the significant features of the period. Beginning of the financial disorder and the rationale underneath the foreign loans should also be investigated. It is also of great importance to suggest a sound explanation on why these loans could not be invested in productive areas.

In this regard, this thesis analyzes the economic, political and social background of Ottoman insolvency and consists of five chapters aside from the introductory and concluding ones.

The introductory chapter makes an overview of the 19th century international political environment and its repercussions on the Ottoman Empire. Understanding the political environment of the time helps the reader to comprehend the developments that are discussed in the rest of the thesis.

Chapter II gives an account of the causes of economic disorder in the Ottoman Empire and the solutions that were produced for the disorder until the Crimean War. In the first part of the Chapter, impacts of the Industrial Revolution, which first emerged in Britain, on the Ottoman Empire are analyzed. The

factorization movement of the Ottomans between the years 1840-50, and its consequences are touched upon. In line with this general theme, special attention is devoted to the Anglo-Turkish Convention of 1838 and its impacts on Ottoman finances since increasing foreign trade in this period caused the Ottomans to have huge foreign trade deficits. In addition, the rise of local bankers is discussed in parallel with internalization of banking. In the second part of the Chapter, efforts of the Ottomans in order to solve their financial problems are explained. The concerns of the Ottomans about foreign loans and the first banking attempts are touched upon. The last section of the Chapter deals with the deliberation of the Ottomans on railways that aimed to eliminate foreign trade deficits by facilitating exports.

Chapter III gives a detailed panorama of the developments in the time of the Crimean War. Beginning of the foreign loans and their consequences are analyzed in detail. Establishment of the Commissions that would control the use of foreign loans only for war expenditures and their impacts are touched upon. The first serious endeavors of the Ottomans regarding railway construction and their failure constitute an important part of the Chapter. In the final part of the Chapter, the connections between banking, railway constructions and the Imperial Reform Edict are presented.

Chapter IV is devoted to the endeavors of the Ottomans to found a national bank after the Crimean War. The Chapter consists of two parts. In the first part, the first attempts of the foreigners to get banking concessions and foundation of the Ottoman Bank are discussed in detail. In this process, increasing competition between potential concessionaires and its consequences are explained. In the

second part, exacerbation of the competition between foreign bankers and its repercussions are discussed. The preference of the Ottomans to place banking concessions into the hands of railway constructors rather than true bankers, and the motive behind this decision are also discussed. The reasons for the delays of the Ottomans both in bank establishments and railway constructions are given considerable attention. In brief, the reasons of the disorder in the Ottoman finances that lasted for many years are discussed.

Chapter V gives an account on the foundation of the Imperial Ottoman Bank (the IOB) after many years of Ottoman efforts to have a national bank. The repercussions of the foundation of the IOB and foundation of the other banks are also discussed. The reasons behind the vicious circle of foreign borrowing are examined. In the second part of the Chapter, attempts of the Ottomans towards industrialization due to foundation of a national bank are elaborated. Moreover, bearing in mind that the railways was an expression of industrialization in the examined period, significant attention is paid to the endeavors of the Ottomans to construct railways.

Chapter VI explains in detail how the financial environment in İstanbul was improved due to the emergence of Vienna as a financial center after 1867. Changes in the roles of the Galata bankers and the financial opportunities brought by the Viennese banks are explained. The causes of the extensive foreign loans and the way they were used are also discussed. In the second part of the Chapter, the crisis in Vienna markets that broke out in 1873 and its repercussions in İstanbul are discussed in detail. How the favorable business conditions in İstanbul were severely affected as a result of the 1873 crisis is given significant attention.

In the last part of the Chapter, the reasons of the 1875 moratorium decision and the denouement of the railway investments are also explained.

The concluding chapter summarizes and highlights important features of the examined period. Connections between foreign loans and attempts for banking and railway constructions are reelaborated. The causes of the insolvency are discussed by taking into consideration changes in the roles and attitudes of the actors. In brief, how and why the Ottomans became insolvent in almost two decades after the first foreign loan is reevaluated.

1.2. Overview of the 19th Century Political Events

The 19th century began with difficulties for the Ottoman Empire since the French Revolution in 1789 triggered nationalistic movements in the Empire. On the other hand, the increasing power of the local leaders (*ayans*) was threatening the integrity of the Ottomans. Military reforms of Selim III to establish a new army were confronted with reactions, and resulted in his execution in 1808.⁵ His successor Mahmud II signed the ‘Document of Alliance’ (Sened-i İttifak) with *the ayans*⁶, and commenced a reform program for centralization and westernization known as *Tanzimat*.⁷

⁵ Donald Quataert and Halil İncik (eds.), *An Economic and Social History of the Ottoman Empire* (Cambridge: Cambridge University Press, 1994), 639-45.

⁶ For more information on ‘Document of Alliance’ see Halil İncik, “Sened-i İttifak ve Gülhane Hatt-ı Hümayunu,” in *Osmanlı İmparatorluğu - Toplum ve Ekonomi*. (İstanbul: Eren Yayınları, 1996), 343-359.

⁷ Quataert and İncik, *An Economic and Social History of the Ottoman Empire*, 876.

In the 19th century the Ottoman Empire underwent exceptional military, economic, social and political changes. The relationships of the Great Powers with each other and their understanding of the situation of the Ottoman Empire have been crucial for both the European powers and the Ottoman Empire. The main significant event that shaped the international political environment of the 19th century was the end of the Napoleonic Wars in 1814.⁸ The end of the Napoleonic era meant restoration of the status quo in Europe.⁹ The allies' efforts to keep peace was established with the Vienna Congress, which was held in 1814, were called the Concert of Europe.¹⁰

In the international system based on preservation of the status quo and on balance of power, the principle of nationalism was ignored. This ignorance created problems both within Europe and the Ottoman Empire. The 1830 and 1848 revolutions were manifestations of the unrest with the system established by the Congress of Vienna.¹¹ The rebellions in Europe were dealt with concerted efforts, to some extent.¹² However, the position of the Great Powers towards uprisings in the Ottoman Empire were more complicated since dealing with the uprisings in the Ottoman Empire would mean handling the problem of the 'Sick Man of Europe'.

The Ottoman Empire covering a large territory extending from Europe to Asia, Middle East and Africa situated on strategic sea routes between the Black

⁸ Norman Rich, *Great Power Diplomacy: 1814-1914* (New York: McGraw-Hill, Inc., 1992), 3.

⁹ René Albrecht-Carrié, *A Diplomatic History of Europe Since the Congress of Vienna* (New York: Harper & Bros, 1958), 8-9.

¹⁰ Rich, *Great Power Diplomacy*, 15-18. For Concert of Europe, see René Albrecht-Carrié, *The Concert of Europe 1815-1914* (New York: Harper Torchbooks, 1968).

¹¹ Rich, *Great Power Diplomacy*, 80. see also Harold Nicolson, *The Congress of Vienna: a Study in Allied Unity: 1812-1822* (New York: Harcourt, Brace & Co., 1946), 221-242.

¹² The uprisings in Spain and Naples, which was in Austrian sphere in 1820, were discussed in the Conferences at Troppau and Laibach. Rich, *Great Power Diplomacy*, 33-38.

Sea and the Mediterranean was declining as a military and political power. Austria wanted to preserve the Ottoman Empire because of the fact that if the fall of the Ottomans could not be avoided, the European powers would start fighting each other to gain control of the Ottoman lands.¹³ The Russians wanted to use the weakness of the Ottomans to their advantage, however, the Russian government was also aware of the fact that the partition of the Empire by the Europeans would likely to threaten Russian security since strong European rivals would replace a weak neighbor. Therefore, Russia also recognized the importance of preserving the Ottoman Empire.¹⁴

Some of the rebellions with nationalistic motives against the Ottomans in this period were the Serbian revolts in 1804-1817¹⁵, the Moldavia and Wallachia revolt in 1820 and the Greek revolt in 1821-1827.¹⁶ Among them, the Greek rebellion against the Ottoman rule in the Balkans was a major crisis for the Concert of Europe.¹⁷

After the outbreak of the Greek revolt, the Sultan asked the help of his nominal vassal, Mehmed Ali Pasha¹⁸, the ruler of Egypt, to subdue the rebellion. Mehmed Ali Pasha built a strong army and navy by imposing a heavy tax on his people, borrowing heavily from the European markets and employing European experts. Responding to the Sultan's appeal, his son İbrahim Pasha successfully put

¹³ Rich, *Great Power Diplomacy*, 44-57.

¹⁴ Rich, *Great Power Diplomacy*, 47.

¹⁵ For more information on Serbian revolts, see Selim Aslantaş, *Osmanlıda Sırp İsyanları* (İstanbul: Kitap Yay., 2007)

¹⁶ Quataert and İnalcık, *An Economic and Social History of the Ottoman Empire*, 761.

¹⁷ Rich, *Great Power Diplomacy*, 49.

¹⁸ For more information, see Gilbert Sinoue, *Kavalalı Mehmet Ali Paşa - Son Firavun (Le Dernier Pharaon)*, trans. A.C. Akkoyunlu (İstanbul: Doğan Kitapçılık, 1997)

down the revolt.¹⁹ Upon the success of the armies of İbrahim Pasha, Mahmud II commenced a ‘propaganda campaign’ about the incompetence of the Janissaries and in contrast to his predecessor Selim III, he was able to abolish the Janissary corps in 1826 and established a new army known as *Asâkir-i Mansure-i Muhammediye*.²⁰

On the other hand, when the fights intensified between Greeks and Turks, the Russian Tsar wanted to intervene in order to protect his Orthodox Christian fellows. Upon the success of İbrahim Pasha in suppressing the revolt, Russia declared war on the Ottoman Empire in 1828. As a result of the war, the Ottomans were defeated and the Egyptian-Turkish fleet at Navarino was burned. In the end, the Ottomans were forced to recognize Greek autonomy and Russia further extended its territories in the Caucasus region.²¹

The Greek rebellion left another crisis to be solved for the Ottoman Empire. The Ottoman Sultan had promised to Mehmed Ali Pasha’s son to give him the governorship over the Crete Island, in return for his support. However as Ibrahim Pasha’s forces were defeated, the promise was not fulfilled. Mehmed Ali Pasha taking advantage of the Ottomans’ weakness extended his domination towards Arabia and Ibrahim Pasha defeated the Ottoman forces at Konya. The probability of Ibrahim Pasha might have ended up invading Istanbul raised serious concerns for European Powers.²²

¹⁹ Albrecht-Carrié, *A Diplomatic History*, 40.

²⁰ Veysel Şimşek, “Ottoman Military Recruitment and the Recruit: 1826-1853” (Master’s Thesis, Bilkent University, 2005), 30-31; Quataert and İnalçık, *An Economic and Social History of the Ottoman Empire*, 765.

²¹ Albrecht-Carrié, *A Diplomatic History*, 40.

²² Rich, *Great Power Diplomacy*, 69.

This crisis coincided with the revolutions of 1830.²³ As the only power in position to help the Sultan, Russia offered to send warships to the Bosphorus whenever the Sultan asked for it. In the absence of any other European Powers' help, the Sultan accepted the Russian offer and Russian warships and troops arrived at İstanbul in February 1833. As a result of this, the Treaty of Hünkâr İskelesi was signed on 8 July 1833, which would last eight years and could be renewed. This agreement provided Russia the right of intervention in Ottoman affairs and guaranteed its influence over the Ottomans besides the protection that it secured for itself.²⁴

Meanwhile, Russia, Austria and Prussia agreed to preserve the integrity of the Ottoman Empire. However, due its distrust towards the Tsar, Britain decided to take more direct steps to bolster the Ottoman Empire and increase British influence. Britain sent advisers to help reorganize the Ottoman army and navy, arranged the Anglo-Turkish Convention, and sought to demonstrate the British government's concerns for the welfare of the Ottoman Empire and its desire to aid the Empire's defense.²⁵

British gestures and Russian support in the Treaty of Hünkâr İskelesi encouraged Sultan Mahmud II to retake Ottoman territories lost to Mehmed Ali Pasha. However, the Ottomans were defeated once again. Mahmud II died before hearing the news and Sultan Abdülmecid succeeded him at the age of sixteen.²⁶

²³ Rich, *Great Power Diplomacy*, 58-68.

²⁴ Rich, *Great Power Diplomacy*, 70-71.

²⁵ Rich, *Great Power Diplomacy*, 71.

²⁶ Rich, *Great Power Diplomacy*, 72.

The 19th century order was threatened once more by the revolutions of 1848 with important international repercussions.²⁷ The most significant international consequence of the 1848 revolutions that would both affect the general balance of power in Europe and the situation of the Ottoman Empire was the change of leadership in most of the great powers of Europe. Elder leaders, who experienced the French Revolution and Napoleonic Wars, were succeeded by younger statesmen who would favor taking adventurous actions on their states' interests rather than preserving status quo for the general interest of Great Powers.²⁸

The eruption of the Crimean War in 1853 was a repercussion of the change in leadership and strategic preferences. Even though the war had seemingly broken out for the protection of the Christians under Ottoman rule, it can be argued that this war occurred because of the conflicting economic and strategic interests of the great powers over the Ottoman Empire. Russian foreign policy since 1828, which was to protect the integrity of the Ottoman Empire, was challenged by France that claimed the right to be protector of the holy places in Jerusalem. Protectorate over the holy places and the Christian population in the Ottoman Empire would provide the guardian state with excuse to intervene into the domestic affairs of the empire and enhance the influence of the protector over the issues under Ottoman influence. Therefore, it was obvious that Napoleon III's demand would create a natural conflict between the Ottomans and Russia.²⁹

²⁷ Rich, *Great Power Diplomacy*, 79-99.

²⁸ Rich, *Great Power Diplomacy*, 100.

²⁹ Rich, *Great Power Diplomacy*, 103-107.

Due to the claims of France, the Ottomans received an ultimatum from Russia. Upon the Russian ultimatum, alongside French support, Britain also encouraged the Ottomans not to give in to the Russian demands and on October 1853 the Ottomans declared war on Russia. Britain and France also declared war against Russia after the Ottoman fleet was annihilated by Russia in Sinop and coastal batteries were bombarded by Russia. These attacks on the Ottomans were denounced by the British and French because Russian naval action was the violation of the Tsar's pledge to remain on the defensive as previously agreed. Not to let France unilateral intervention, Britain joined the French fleet in the Black Sea.³⁰ Russia was defeated as a result of the war, and, the Treaty of Paris was signed on February 1856.³¹

In order to prevent any discussions and insertion of a provision in the peace treaty about the rights of the Christians inhabiting in the Ottoman Empire at the Paris Conference, the Ottomans issued the Reform Decree before the Congress was convened. According to the Decree, all privileges and special immunities granted to all Christians and other non-Muslims in the Ottoman Empire were guaranteed; complete freedom of religion, various political, legal and economic reforms were promised.³²

The most important result of the Crimean War was the disruption of the Concert of Europe. The War ended the international order that was based on the Great Powers' respect towards one another's interests and determination to preserve stability and status quo. After the war, Russia became a revisionist state.

³⁰ Rich, *Great Power Diplomacy*, 112.

³¹ Rich, *Great Power Diplomacy*, 119.

³² Rich, *Great Power Diplomacy*, 120.

Britain concentrated on its domestic affairs. Austria remained isolated by the other Great Powers. Prussia was dismissed as a major power. France succeeded in breaking the concert system. The Ottoman Empire was protected against Russian aggression. Since there was no concerted European state system left, Russia as a revisionist state repudiated the Black Sea clauses of the Treaty of Paris, while France and Prussia struggled over the fate of Germany. It was in 1877 when Russia regained territory that it had to give in like Kars and surrounding territory in the Caucasus area to the east of the Black Sea after the war with the Ottomans.³³

The wars in late 18th and early 19th centuries, by their complicated and partly indirect outcomes, contributed to the economic stagnation of the Ottomans. Loss of land due to the wars also led to a loss in the market.³⁴ Increased government expenditures in this period potentially might have led to an increase in demand; however, this was not the case, since the army bought its needs below the market prices.³⁵ Besides loss of lands and markets and increased governmental expenditures, the political and military reforms also enhanced the impact of economic stagnation.

³³ Rich, *Great Power Diplomacy*, 121.

³⁴ Quataert makes comparison between the Ottoman Empire and Japan, India and Spain. Unlike in Japan and India, the textile industry of the Ottoman Empire and Spain (except silk and carpet) was mostly served for the domestic markets. Therefore, the loss of land meant a significant loss of market, which gave great harm to the Ottoman industry. Donald Quataert, *Ottoman Manufacturing in the Age of the Industrial Revolution* (Cambridge: Cambridge University Press, 1993), 17.

³⁵ Mehmet Genç, "XVIII. Yüzyılda Osmanlı Sanayiinde Gelişmeler ve Devletin Rolü," in *Osmanlı Vol:3*, ed. Halil İnalcık (Ankara: Yeni Türkiye, 1999), 264-267.

CHAPTER II:

RECOGNITION OF THE ECONOMIC PROBLEMS

2.1. The Origins of Economic Disorder

As mentioned in the previous chapter, the 19th century has been rightfully acclaimed by historians as the longest century of the Ottoman Empire.³⁶ The nationalist movements as a result of the French Revolution, the increasing power of the ayans, the abolishment of the Janissary corps and the establishment of the new army apart from political upheavals also contributed to economic stagnation and the government was faced with increased expenditure.

2.1.1. Industrialization Attempts of the Ottomans

As a result of the Industrial Revolution emerging first in Britain by the end of the 18th century, steam and viewing machines were invented. These inventions were partly stimulated by the exploration of new coal and iron mines as well as new techniques in mine melting. The accumulated capital due to increased

³⁶ İlber Ortaylı, *İmparatorluğun En Uzun Yüzyılı* (İstanbul: İletişim Yayınları, 2003)

production was invested in local industry once again, which folded the local production in Britain.³⁷ Parallel to this development, the Ottoman Empire also initiated a program of industrialization from the beginning of Tanzimat Period to the Crimean War. These attempts can also be considered within the recentralization aim of the Porte similar to the establishment of the new army. Due to increasing conflicts in the beginning of the 19th century, a new army and a new bureaucratic class has been formed. In order to meet the necessities of these two classes, the government sought to rely on its own sources rather than on uncertain supplies. Therefore, the attempts for setting up factories were mostly in order to meet the needs of the military bureaucracy.³⁸

In the 19th century, there were two different periods of industrialization. The first period roughly covered the years 1840–1850, when a factorization movement, in which the government investments were very high, was carried out. The second one, which will be explained later on³⁹, was in the second half of the 19th century, when the State preferred mostly to act as a regulator via the *Islah-ı Sanayi Komisyonu* (Industrial Reform Commission).⁴⁰

The paper factory at Beykoz, which was established in 1804, can be considered as a pioneer of large-scale industrial institutions, in the 19th century. There were, in fact, some other factories that were established before the Tanzimat Period such as leather and shoe factory in Beykoz, the thread

³⁷ Donald Christy Blaisdell, “Osmanlı İmparatorluğu’nda Avrupa Mali Denetimi: Düyun-u Umumiye (II),” trans. Ali İhsan Dalgıç, *Belgelerle Türk Tarihi Dergisi* 65 (2002): 34.

³⁸ Çağlar Keyder, “Europe and the Ottoman Empire in mid-nineteenth century: Development of a Bourgeoisie in the European Mirror,” (presented at East Meets West: Banking, Commerce and Investment Colloquium, İstanbul, 15-16 October 1999), 4.

³⁹ See page 90.

⁴⁰ Abdullah Martal, “Osmanlı Sanayileşme Çabaları,” in *Osmanlı Vol:3*, ed. Halil İnalcık (Ankara: Yeni Türkiye, 1999), 279.

(*İplikhane-i Amire*) and the fez factory (*Feshane-i Amire*) in Eyüb. In the Tanzimat period, the establishment of the factories continued, called collectively as *Fabrika-yı Hümayun*.⁴¹ Beginning from 1843, engineers and technicians were brought into the country with the necessary machinery from Europe. The finance of these works was mostly provided from the fund of the *Hazine-i Hassa*.⁴²

As an indication for industrialization, the factorization movement in 1840-50 was mostly affected by the Industrial Revolution and was mainly shaped as a montage industry. The structure was mostly identified by the needs of the Palace and the army. Most of the people working in these factories were unqualified.⁴³ Therefore, most of the factories were closed due to bad management, lack of knowledge and experience, and competition with Europeans. In the end, the government ceased to invest in industry and acted as regulator, instead.⁴⁴

⁴¹ Ahmet Akgündüz and Said Öztürk, *Bilinmeyen Osmanlı* (İstanbul: Osmanlı Araştırmaları Vakfı, 1999), 465.

⁴² Martal, "Osmanlı Sanayileşme Çabaları," 280. Hazine-i Hassa or Hazine-i Enderun was the private treasury of the Sultan. Hazine-i Hassa could assist the treasury of the state and act as a credit institution. Haydar Kazgan, *Osmanlı'dan Günümüze Türk Finans Tarihi* (İstanbul: İstanbul Menkul Kıymetler Borsası Yayını, 1999), 128-29.

⁴³ Unqualified workers are considered by Keyder as a significant factor for the failure of the 'top-down' industrialization attempt. To him, the lack of regular wage could not create independent workers. The non-natives were working for qualified fields. In lack of a proletariat class, prisoners, orphans and members of tribes who were exempt from taxes, have been employed. However, these people were lacking discipline and swinging the lead. Therefore, they cannot be transformed to a permanent manpower. Keyder, "Osmanlı İmparatorluğu'nda XVIII. ve XIX. Yüzyıllarda İmalat Sanayii," 276.

⁴⁴ The logic behind this support for private enterprises was the idea that the fulfillment of the necessities for the general economic life can only be provided by institutionalization. All this promotions were considered in the policies that began in the Tanzimat period known as 'usul-i imariye' as a whole. For the establishment process of these private factories and the promotions given to them see, Ahmed Kal'a, "Osmanlı Devleti'nde Sanayileşmenin İlk Yıllarında Özel Fabrikalar," in *Osmanlı Vol:3*, ed. Halil İnalcık (Ankara: Yeni Türkiye, 1999), 286-294.

2.1.2 The Anglo-Turkish Convention of 1838

Excess production in Britain due to the Industrial Revolution found its way at first to the rest of Europe.⁴⁵ Britain took the advantage of this new development until 1820s; however from then on, European countries began to follow protectionist policies by increasing customs tariffs to protect their local industries.⁴⁶ By 1830s, there were some discomfort arising both in working and employer classes due to limited export possibilities and scarce raw material.⁴⁷ Therefore, Britain began to look for new markets in order to obtain the raw materials it needed and to sell its products. As a result of this, between 1820-1840, Britain signed many free trade treaties with various countries, including Latin America, China, and the Ottoman Empire.⁴⁸

In this period, the Ottoman government was following the *provisionism*, policy which took consumer welfare as basis. The government only interfered in the export. However it did not pursue a restrictive policy on import. The goods were being utilized essentially for domestic needs and they could be exported only if the amount exceeded the domestic necessity.⁴⁹ In the beginning of the 19th

⁴⁵ Blaisdell, "Osmanlı İmparatorluğu'nda Avrupa," 34.

⁴⁶ Kaya Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)" (Unpublished Ph.D. diss., Marmara University, 2002), 33.

⁴⁷ Murat Arısal, "XIX. Yüzyılda Osmanlı Belçika Ekonomik İlişkileri" (Master's Thesis Marmara Üniversitesi Sosyal Bilimler Enstitüsü, 2001), 7.

⁴⁸ Şevket Pamuk, *Osmanlı Ekonomisi ve Dünya Kapitalizmi (1820-1913)* (Ankara: Yurt Yayınları, 1984), 19.

⁴⁹ Hüseyin Al, "Osmanlı Devletinde Dış Ticaret ve Para Problemleri," *Active Bankacılık ve Finans Dergisi* 3, (1998): 1. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007); Genç, "XVIII. Yüzyılda Osmanlı Sanayiinde Gelişmeler ve Devletin Rolü," 264.

century, contrary to dense domestic trade, the Ottomans experienced low levels in foreign trade, which was realized roughly as 2% of the total product.⁵⁰

Increase in foreign trade began in the Ottoman Empire especially after the Napoleonic Wars. Although, France has been given more concessions than any other European countries in previous periods, due to Napoleonic Wars and internal troubles, the British got the dominance over Ottoman foreign trade.⁵¹

The British export to the Ottoman Empire significantly increased before Tanzimat Period. The amount of export to the Ottoman Empire, which was £650.000 during 1820-1822, increased to £1.729.000 in 1836-1838 with a growth rate of 6%.⁵²

Ottomans historically have been signing trade agreements with European countries regarding the identification of customs tariffs. The last agreement with Britain was signed in 1820 and it would be valid until 1 March 1834. However, in this period, the benefits of the agreement turned against the Ottomans since good prices increased and value of *kuruş* decreased against to pound sterling due to the frequent debasement of the Ottoman coinage. Despite the Ottoman's insistence to revise the agreement, Britain tried to delay the determination of the customs tariffs.⁵³

⁵⁰ Şevket Pamuk, 19. *Yüzyılda Osmanlı Dış Ticareti* (Ankara: Devlet İstatistik Enstitüsü, Tarihi İstatistikler Dizisi, 1995), 27.

⁵¹ Hüseyin Al, "Tanzimat Dönemi Bankacılık Teşebbüsleri" (Master's Thesis, İstanbul Üniversitesi Sosyal Bilimler Enstitüsü, 1997), 45. Pamuk, *Osmanlı Ekonomisi ve Dünya Kapitalizmi*, 25.

⁵² Pamuk, *Osmanlı Ekonomisi ve Dünya Kapitalizmi*, 25. Baskıcı gives the export of Britain to the Ottoman Empire in 1836 with a total £3.700.000 according to Barley&Wood. Baskıcı, "Ondokuzuncu Yüzyılın İkinci Yarısında," 47.

⁵³ Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 35.

The revolt of Mehmed Ali Pasha in 1831 worsened the situation. Mehmed Namık Pasha was sent to Britain to seek its support in suppressing the revolt to no avail. Desperately, the Ottoman Empire accepted the offer support of Russia and in return the Treaty of Hünkâr İskelesi granting privileges to Russia was signed on 8 July 1833.⁵⁴

This development made the British worry about its interests in the Middle East and it augmented its efforts in order to break this alliance. The negotiations that began in 1836 aiming at the revision of existing agreement, ended in 1838. The Anglo-Turkish Convention was signed and support of Britain against Mehmed Ali Pasha was provided in return.⁵⁵

According to the articles of the Treaty, the *yedd-i vahid* system, which was the direct intervention of the state in domestic trade as a monopoly, was abolished. This system originally has been put into action to finance the new army's (*Asakir-i Mansure*) costs.⁵⁶ The *Tezkere* method, which gave its owner the right to buy goods in a region and to sell them in permitted areas after the payment of taxes, was also abolished as a result of the Treaty.⁵⁷ The Treaty also considered the British merchants as the members of the *most favored nation* giving those equal rights with local merchants.⁵⁸

⁵⁴ Vahdettin Engin, *Rumeli Demiryolları* (İstanbul: Eren, 1993), 32. Rich, *Great Power Diplomacy*, 70-71.

⁵⁵ Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 35.

⁵⁶ In fact, the system could not been continued for many goods. Only monopoly on hashhash had lasted for years. Mehmet M. Baskıcı, "Ondokuzuncu Yüzyılın İkinci Yarısında Osmanlı İmparatorluğu'nda İktisadi ve Sosyal Dönüşüm," (Ph.D. diss., Ankara Üniversitesi Sosyal Bilimler Enstitüsü, 2000), 48.

⁵⁷ Tezkere method was the demonstration of the indirect intervention of the government in domestic trade. Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 35.

⁵⁸ Baskıcı, "Ondokuzuncu Yüzyılın İkinci Yarısında," 50.

In this period, many trade agreements have been signed by the Ottoman Empire with various European countries; i.e. France in 1838, Sardinia in 1839, Sweden, Norway, Spain, Holland, Belgium⁵⁹, Greece and Germany in 1840, Denmark in 1841, Portugal in 1846 and Russia in 1846.⁶⁰

Quataert claims that, the Anglo-Turkish Convention cannot be considered as a turning point in the policy of the Ottomans. In fact, the Ottomans have been following same kind of liberal economic policy since the abolishment of Janissary corps.⁶¹ Actually, this point is consonant with the figures. Prior to the Treaty, between 1836-38, the growth rate of the imported amounts from Britain was realized as 6%, whereas this rate was lower, i.e. 3.4%, between 1838-1854. In the mentioned period, the Ottoman Empire also experienced an increase in the growth rate of its exports to Britain, from 5% of 1820-38 period to 6.8% of 1838-54.⁶²

As a matter of fact, the Treaty resulted in high volumes of foreign trade, particularly in the amount of imports of the Ottomans. Despite the significant increases in the export of the Ottoman Empire, the foreign trade deficit was growing severely. In the period 1830-1850, this deficit was realized as £0.9 million on average.⁶³

⁵⁹ Arısal gives the agreement date with Belgium as 3 August 1838 according to the Ottoman archives. Arısal, "XIX. Yüzyılda Osmanlı Belçika Ekonomik İlişkileri," 21.

⁶⁰ Baskıcı, "Ondokuzuncu Yüzyılın İkinci Yarısında," 52. In fact, there was another agreement with Russia signed after the defeat of the Ottomans in 1828-29 war, which can be taken as a model for Anglo-Ottoman Treaty in 1838. Pamuk, *Osmanlı Ekonomisi ve Dünya Kapitalizmi*, 19.

⁶¹ İnalcık and Quataert, *An Economic and Social History of the Ottoman Empire*, 764. By signing many trade agreements, the barriers in front of both foreign goods, which were abundantly entering into the Ottoman Empire from the beginning of the century, and the Ottoman goods to be exported were delimited and the actual situation was settled to a legal basis. Al, "Tanzimat Dönemi Bankacılık Teşebbüsleri," 46.

⁶² Pamuk, *Osmanlı Ekonomisi ve Dünya Kapitalizmi*, 26.

⁶³ Al, "Tanzimat Dönemi Bankacılık Teşebbüsleri," 46.

Table 1: 1830-1913 Ottoman Foreign Trade (million pounds sterling)⁶⁴

Year	Export	Import	Year	Export	Import	Year	Export	Import
1830	3.7	5.3	1850	7.8	8.9	1870	17.4	22.5
1831	3.6	4.6	1851	8.8	8.7	1871	20.7	21.4
1832	4.2	4.9	1852	9.8	10.8	1872	20.2	23.2
1833	4.1	4.4	1853	9.8	11.3	1873	19.2	22.4
1834	3.9	4.5	1854	9.3	10.7	1874	21.1	23.3
1835	4.4	5.2	1855	9.7	19.2	1875	19.0	22.1
1836	4.4	5.7	1856	12.5	18.4	1876	23.0	19.7
1837	4.5	4.5	1857	10.0	12.0	1877	17.4	16.4
1838	4.4	6.2	1858	9.8	11.9	1878	13.6	18.0
1839	4.8	5.4	1859	10.4	10.6	1879	15.0	18.9
1830-39	4.2	5.1	1850-59	9.8	12.3	1870-79	18.6	20.8
1840	4.7	5.2	1860	11.1	13.7	1880	14.3	15.8
1841	5.3	5.8	1861	12.2	12.0	1881	15.3	15.2
1842	5.5	6.0	1862	13.7	13.1	1882	15.9	15.2
1843	5.7	6.2	1863	15.8	17.5	1883	16.3	15.3
1844	5.7	7.5	1864	16.7	19.9	1884	16.7	15.0
1845	6.2	7.4	1865	15.6	19.4	1885	16.9	15.8
1846	6.2	6.5	1866	15.5	20.4	1886	16.3	16.5
1847	7.8	8.4	1867	14.9	19.8	1887	14.0	16.6
1848	5.8	7.8	1868	19.7	22.8	1888	13.2	16.0
1849	6.6	8.1	1869	18.9	24.0	1889	16.3	18.5
1840-49	6.0	6.9	1860-69	15.4	18.3	1880-89	15.5	16.0

2.1.3. International Banking and Rise of the Galata Bankers

Multinational banking originated in the 19th century Britain with the establishment of overseas banks in 1830s.⁶⁵ After the Industrial Revolution, the increasing world trade and the activation of the international movement of capital led to the internationalization of banking. Following the emergence of London as a commercial center in the world, British banks began to finance international credits by accepting bills.⁶⁶ In fact, due to loose legal restrictions and inefficient crediting policy, an annual average of ten banks went bankrupt, between 1824 and

⁶⁴ Pamuk, *19. Yüzyılda Osmanlı Dış Ticareti*, 25.

⁶⁵ Geoffrey Jones, *Banks as Multinationals*, ed. Geoffrey Jones (London, New York: Routledge, 1990), 30.

⁶⁶ Cameron and Boyvkin, *International Banking*, 518.

1844. In order to set an order in the banking system, the Bank Charter Act came into force in 1844 and the right for banknote emission was given to the Bank of England.⁶⁷

On the other hand, in the restoration period following the Napoleonic Wars, the French government firstly borrowed from the Dutch Hope and British Baring banks since the members of *haute banque*, the private banking houses of Paris were out of capital due to their huge investments on land and real estate. Baron James de Rothschild did not miss this opportunity and became dominant in French foreign debt until the 1848 revolutions, by making significant profits. It could only be possible after 1848, to break the dominance of Rothschilds on the French Treasury and French stock market. The establishment of *La Caisse Générale des Chemins de Fer* by Jules Isaac Mirés and the rise of Pereire Brothers after 1848 were two important developments of the period.⁶⁸ To conclude, the second quarter of the 19th century, especially 1840s, witnessed significant changes both in structure and internationalization of banking.

The banks' role in the industrial growth cannot be denied. However, for countries where development and legal restrictions were inadequate, the banks could not serve for industry. In fact, it could be possible only in the last third of the 19th century to establish stable ties between banks and industry. Until then, the main operations of the banks were crediting world trade and making placement of government bonds and securities of railway companies.⁶⁹

⁶⁷ Burhan Ulutan, *Bankacılığın Tekamülü* (Ankara: Milli Kütüphane, 1957), 81-82.

⁶⁸ Ulutan, *Bankacılığın Tekamülü*, 89-91.

⁶⁹ Cameron and Boyvkin, *International Banking*, 521-22.

In the 19th century, The British capital served mainly to the British colonies, the Latin America, the Far and Middle East, whereas the French capital was mostly exported to Europe, though some of it to the Middle East. The relations of these two countries in Europe and particularly in the Middle East formed a “complex combination of competition and partnership”.⁷⁰

In the Ottoman context, international banking also strengthened the position of the local bankers. Due to the evolution of merchant bankers into discount houses and bill brokers⁷¹ because of the increasing international trade, the local bankers could be able to draw bills and have the bills discounted in these banks. On the other hand, foreign merchants cooperated with local bankers in carrying their business in the Ottoman territories.⁷² This application was valid also for international bankers. In the countries lacking strong local dynamics, foreign bankers became more active and almost independent. On the other hand, for the countries having local actors they preferred cooperation. In the end, introduction of the local elements contributed to the complexity of the system.⁷³ This structure became complex as it created competition between banks of different countries, multinational banking groups and local bankers as well as partnerships among them.⁷⁴

In the Ottoman case, the government has been applying to *sarrafs*⁷⁵ especially for short-term borrowings to overcome its financial difficulties, from

⁷⁰ Cameron and Boyvkin, *International Banking*, 519.

⁷¹ Ulutan, *Bankacılığın Tekamülü*, 85-86.

⁷² Baskıcı, “Ondokuzuncu Yüzyılın İkinci Yarısında,” 56.

⁷³ Cameron and Boyvkin, *International Banking*, 521.

⁷⁴ Cameron and Boyvkin, *International Banking*, 525.

⁷⁵ Sarrafs were money-changers. They could yield profit from the differences of the values of various currencies. Ali Akyıldız, *Para Pul Oldu: Osmanlı'da Kağıt Para, Maliye ve Toplum* (İletişim: İstanbul, 2003), 33.

the beginning of the 16th century. In time, these *sarrafs* collected around the Galata neighborhood, consisting of Jews, Greeks, Armenians and some Levantines, were collectively named as the Galata bankers.⁷⁶

In the first half of the 19th century, due to increasing volumes of international trade, European merchants settled in big port cities. After the abolition of the Levant Company⁷⁷, the monopoly in the eastern Mediterranean trade had been removed. It was only then, that the British merchants began to establish family companies to fill the gap, mostly in İzmir. Foreign merchants chose Greeks and Armenians as intermediaries for carrying on their business in the internal regions, who were culturally closer to them.⁷⁸ Since the capitulations allowed legal extraterritoriality to foreigners, non-Muslims began to get the passports of European countries, which placed them beyond the Ottoman legal system in the end.⁷⁹

The Galata bankers participated in the finance of international trade by providing credit through ‘dummy’ bills of exchange and purchase and selling of foreign exchange. They also provided short-term credit to the government.⁸⁰ *Sergis*, promises of the government departments to pay at a future date, and *havales*, orders addressed to revenue formers to make payments also served to the

⁷⁶ Ekrem Erdem, “Osmanlı Para Sistemi ve Tağşiş Politikası: Dönemsel Bir Analiz,” *Bankacılar Dergisi*, No: 56 (2006): 18.

⁷⁷ The Levant Company was a chartered company formed in 1581, with guarantees of exclusivity. The Company's purview was thrown open to free trade in 1754, but continued its activities until dissolution in 1825. Wikipedia contributors, “Levant Company,” Wikipedia, The Free Encyclopedia, http://en.wikipedia.org/wiki/Levant_Company (accessed on 1 December 2007)

⁷⁸ Baskıcı, “Ondokuzuncu Yüzyılın İkinci Yarısında,” 56.

⁷⁹ Keyder, “Europe and the Ottoman Empire,” 6.

⁸⁰ Ioanna Pepelasis Minoglou, “Ethnic Minority Groups in International Banking: Greek Diaspora Bankers of Constantinople and Ottoman State Finances, c. 1840-81,” *Financial History Review* 9 (2002): 131, 134.

Galata bankers as sources of income.⁸¹ By discounting such receivables and speculating on them, named at the time as ‘air plays’ (*hava oyunları*), Galata bankers could yield significant profits.⁸²

2.2. Attempts for Recovery

2.2.1. Dealing with Financial Problems

Initially, all of the reform movements and the revolts and wars mentioned created a financial burden for the Ottoman Empire. In order to overcome financial difficulties and provide additional revenue, the coinages (*sikke*) have been debased (*tağşiş*) several times. Only during the reign of Mahmud II (1808-1839), the golden *sikke* was debased for 35 times, whereas silver *sikke* 37 times.⁸³

In 1808, the silver amount in the Ottoman piaster (*kuruş*) was 5.9 grams; however, in 1831 it became only 0.5 gram.⁸⁴ After the last debasement, there were 36 different silver *sikkes* circulating in the Ottoman Empire, which put the monetary system in great disorder.⁸⁵ In the mentioned period, there were also

⁸¹ Christopher Clay, *Gold for The Sultan: Western Bankers and Ottoman Finance 1856–1881* (New York-London: I.B. Tauris, 2000), 266.

⁸² Haydar Kazgan, “Osmanlı İkramiyeli Devlet Borçları, Rumeli Demiryolları ve Duyun-u Umumiye,” *Toplum ve Bilim* 17, (1982): 57. By 1840s, well known Galata bankers were consisted of Jewish Isaac Camondo, French Levantine Jacques Alleon, and eleven Greeks, namely, George Zarifi, George Zafiropoulos, Emmanuel and Theodore Baltazzi, Stephanos Rallis, Christakis Zographos, D. Glavanys, Stephanos Mavrocordatos, B. Tubini, Z. Stephanovitch-Skylitsis and Ioannis Psycharis. The Greeks were all merchants in origin except Baltazzi, who mostly involved in foreign trade. Minoglou, “Ethnic Minority Groups in International Banking,” 128.

⁸³ Al, “Osmanlı Devletinde Dış Ticaret ve Para Problemleri,” 3.

⁸⁴ Erdem, “Osmanlı Para Sistemi ve Tağşiş Politikası,” 18.

⁸⁵ Al, “Osmanlı Devletinde Dış Ticaret ve Para Problemleri,” 3.

some other developments in the world that led to further financial difficulties in the Ottoman Empire.

Almost immediately after the Anglo-Turkish Convention was signed, on 3 November 1839, the Imperial Edict of Gülhane has been promulgated. Most of the historians consider Tanzimat as the starting point for modernization with an integrated monetary economy and a unified market. “The economic liberalism of the 19th century may well have been the prerequisite for a new structure, escaping inertia and low social mobility.”⁸⁶ In the Imperial Edict of Gülhane, it is mentioned that the *iltizam* system would be abolished and taxes would be collected fairly. The Ministry of Finance was established in 28 February 1838, and began to prepare budgets presenting approximate revenue and expenditure amounts beginning from 1842.⁸⁷

Although the finances of the Ottoman Empire were in disorder, financial regularity was a new phenomenon to the Europeans, too. As Sir William Clay, would-be chairman of the Imperial Ottoman Bank stated out in 1863, “[i]t had not been very long since the British financial system hardly differed from that of the Ottoman Empire”.⁸⁸

All developments mentioned made further attempts in debasement impossible.⁸⁹ Another barrier in front of any further debasement was the existence

⁸⁶ Toprak, “The Ottoman Realities and Economic,” 2.

⁸⁷ Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 47. In fact, these budgets can not be considered as modern budgets since they presented approximate amounts of income and expenditure. Yet, it may be argued that 1846-47 budget was a modern one. Coşkun Çakır, *Tanzimat Dönemi Osmanlı Maliyesi* (İstanbul: Küre Yayınları, 2001), 57.

⁸⁸ Andre Autheman, *The Imperial Ottoman Bank* (İstanbul: The Ottoman Bank Archives and Research Centre, 2002), 18.

⁸⁹ Erdem, “Osmanlı Para Sistemi ve Tağşiş Politikası,” 19.

of high volume of foreign trade. In a closed economy, any debasement had its impact on the market with a delay; however, due to increased foreign trade, any decrease in the value of money instantly reflected to the market prices.⁹⁰

Table 2: Exchanges Rates until 1844.⁹¹

Date	1 £ = Kuruş
1820	32.0
1826	57.5-58.8
1830	77.5
1831	84.8
1832	94.0
1833	96.9
1834	97.3
1835	101.8
1836	103.5
1837	108.8
1838	104.0
1839	104.8
1840	109.8
1841	114.5
1842	118.1
1843	110.0
1844	110.0

The intolerance of money for further debasements, led the government to look for other financial sources. It was the time when paper money, known as *kaime* or *kavâim-i nakdiyye-i mu'tebere*, was introduced in 1840.⁹² In fact, these were; in essence, interest bearing paper bills rather than true paper money. The total volume of *kaime* was equal to 40 million *kuruş* bearing an interest of 12.5% for an eight years' term.⁹³

⁹⁰ Al, "Osmanlı Devletinde Dış Ticaret ve Para Problemleri," 4.

⁹¹ Al, "Osmanlı Devletinde Dış Ticaret ve Para Problemleri," 3.

⁹² Akyıldız, *Para Pul Oldu*, 44.

⁹³ Şevket Pamuk, "From Bimetallism to the 'Limping Gold Standard': The Ottoman Monetary System in the Nineteenth Century," (presented at East Meets West: Banking, Commerce and Investment Colloquium, İstanbul, 15-16 October 1999), 2. Akyıldız, *Para Pul Oldu*, 45.

The first *kaimes* were not suitable for substitution since they were big in shape. Therefore their circulation was limited. Another problem was their simple structure, which made them suitable for counterfeiting.⁹⁴ The first *kaimes* were prepared in handwriting and thus their imitations were put into circulation by the counterfeiters.⁹⁵

The problems related to the *kaime* and the decreasing value of coinage vis-à-vis the pound sterling led the State to look for solutions. Experts committees prepared reports. The suggestions of these experts can be summarized in three groups. The first suggestion was to decrease the foreign trade deficit, therefore, to prevent gold and silver from going abroad. The second one aimed at putting the monetary system in order. The coins should be minted in good shape with true silver and gold ratios and there should be no further debasement. The third one, which was the prerequisite for the success of the first two suggestions, aimed at maintaining the exchange rates between the lira and the pound sterling. All of these studies were presented to the cabinet, the *Meclis-i Vükela*. The cabinet agreed on three decisions given below;

1. Establishment of a council that will to put the foreign trade in an order.
2. Stabilization of exchange rate where 110 *kuruş* would be equal to a pound sterling and allocation of necessary funds for this.

⁹⁴ Erdem, "Osmanlı Para Sistemi ve Tağış Politikası," 19.

⁹⁵ Akyıldız, *Para Pul Oldu*, 41-48. A counterfeiter could be sentenced from 6 months to 4 years according to the quality of the imitation. Ali Akyıldız, *Osmanlı Dönemi Tahvil ve Hisse Senetleri / Ottoman Securities* (İstanbul: Tarih Vakfı Yayınları, 2001), 143.

3. Minting of coinage with true ratios of gold and silver and fixation of these coinage to the defined exchange rate.⁹⁶

In order to fix the exchange rate, the government met with some bankers who were dealing with foreign exchange in Galata for some time, including Alleon, Baltazzi and Rallis. The government would allocate the necessary fund for the business.⁹⁷

The first contract has been signed on 25 April 1843 with Alleon and Baltazzi. According to the agreement, the exchange rate would be fixed at the rate 110 *kuruş* equal to 1 pound sterling. According to the bureaucrats, there would be no need for any attempt to fix the exchange rate after the value of the coinage was stabilized and foreign trade balance was provided. Therefore the contract period was limited to two years.⁹⁸

In 1844, the government began to exercise the bimetallic standard. Silver *kuruş* and gold lira would be freely convertible at a fixed rate of 100 *kuruş* equaled to one gold lira. Thus after 1844, the government abandoned the debasement of coinage.⁹⁹

⁹⁶ Hüseyin Al, "Para Piyasasında İstikrar Arayışları," *Active Bankacılık ve Finans Dergisi* 4, (1998): 1, 4. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

⁹⁷ Hüseyin Al, "Kambiyo İstikrarının Sağlanması," *Active Bankacılık ve Finans Dergisi* 5, (1999): 1. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

⁹⁸ Al, "Kambiyo İstikrarının Sağlanması," 1-3.

⁹⁹ Pamuk, "From Bimetallism to the," 7.

As Alleon and Baltazzi's partnership was broken due to personal conflicts; Alleon continued to work alone with the Porte. However, in 1848, they became partners once more.¹⁰⁰

The attempt can be considered successful since the exchange rate was stabilized until 1848. However, the 1848 revolutions in Europe led to a decrease in the Ottoman exports.¹⁰¹ Financial difficulties could only be surpassed by minting new *kaimes* and borrowing from the local bankers.¹⁰²

2.2.2. The Banque de Constantinople and First Banking Attempts

In 1849, contract term between Alleon, Baltazzi and the Porte was coming to an end. Due to inefficiencies of the applied system, it was suggested that it would be better to establish a bank to continue business.¹⁰³ Therefore, in June 1849, the Banque de Constantinople has been established by Alleon and Baltazzi with a capital of 25 million *kuruş*.¹⁰⁴

¹⁰⁰ Hüseyin Al, "Kambiyo İstikrarı Uygulamasının Sona Ermesi," *Active Bankacılık ve Finans Dergisi* 7, (1999): 3. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

¹⁰¹ Haydar Kazgan, *Galata Bankerleri* (İstanbul: Türkiye Ekonomi Bankası Yayınları, 1991), 20.

¹⁰² Al, "Kambiyo İstikrarı Uygulamasının Sona Ermesi," 3.

¹⁰³ Al, "Kambiyo İstikrarı Uygulamasının Sona Ermesi," 4.

¹⁰⁴ Edhem Eldem, *Osmanlı Bankası Tarihi*, trans. Ayşe Berktaş (İstanbul: Osmanlı Bankası ve Tarih Vakfı Ortak Yayını, 1999), 22. Hüseyin Al, "Dersaadet Bankası Ne Zaman Kuruldu?," *Active Bankacılık ve Finans Dergisi* 8, (1999): 1. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007) In fact, there were some other attempts to found banks in the Ottoman Empire prior to Banque de Constantinople. High volumes of international trade, mostly realized at İzmir, created financial opportunities for Galata bankers. In the absence of competition, they provided credits to foreign merchants, with high interest rates and commissions. Therefore, foreign merchants tried to get concessions from the Porte to establish banks. However, the proposals of British merchants in 1836 and those of French merchants to establish a General Bank of Constantinople and British Reed, Irving and Company in 1840 were all refused by the Porte. In 1842, foreign merchants established the Smyrna bank in İzmir without the permission of the Porte that was shut down the same year. Al, "Tanzimat Dönemi Bankacılık Teşebbüsleri," 8, 36-37.

Rather than doing banking in the wide sense, the Banque de Constantinople involved in the stabilization of the exchange rate. Lacking the necessary capital to cover the devastating impacts of the 1848 revolutions on the exports of the Empire, the Bank was inevitably operating with an annual loss amounting to 12 million *kuruş*.¹⁰⁵ Another obligation of the Bank that is to provide short-term credits to the government, led to serious liquidity problems.¹⁰⁶

In fact, the government severely needed new funds to cover the large deficit in the State's account. Knowing well the Porte's necessities, the British ambassador Sir Stratford Canning presented a reform plan to the Sultan on 22 August 1850 that foresaw a foreign loan. With a loan amounting to five or six million pounds sterling, the government could withdraw *kaimes* and debased coinage.¹⁰⁷ By such loan, the government would consolidate its debts and "provide the capital for constructing the means of transport and the other public works needed to unlock the great resources of Turkey".¹⁰⁸ The plan also touched upon the importance of a 'state' or 'national bank', which has been proposed by Canning to the Porte for many years, as Canning claimed.¹⁰⁹

After four months of deliberation, the Porte rejected the plan that was prepared by Canning and Lord Palmerston¹¹⁰, by mentioning, "[T]hey should

¹⁰⁵ Eldem, *Osmanlı Bankası Tarihi*, 21.

¹⁰⁶ Murat Hulkiender, *Devletin Finans Çevreleri İlişkileri Açısından Galata Bankeri George Zarifi (1806–1884)* (İstanbul: Osmanlı Bankası Arşiv ve Araştırma Merkezi, 2003), 5.

¹⁰⁷ F.S. Rodkey, "Ottoman Concern about Western Economic Penetration in the Levant 1849-1856," *Journal of Modern History* XXX (1958): 348.

¹⁰⁸ Clay, *Gold for the Sultan*, 14.

¹⁰⁹ Clay, *Gold for the Sultan*, 15.

¹¹⁰ The then foreign secretary of England. He became Prime Minister in 1855. Eldem, *Osmanlı Bankası Tarihi*, 37.

abstain from further pressing upon the Turkish authorities, great and aggregate systems of reform”.¹¹¹

In early 1851, the Banque de Constantinople survived from bankruptcy with the help of the government amounting to 3 million *kuruş*.¹¹² The difficulties of the Bank and the deficit of the previous year amounted to £1.000.000, led the State to deliberate once again the establishment of a national bank.¹¹³ In this framework, many projects have been developed in the Ottoman Empire and two reports were prepared in 1851. The first one was a regulation that explained how the bank should be established and managed. The second one explained the advantages of establishment of such bank by giving examples from Europe.¹¹⁴

For the first time in Ottoman history, these studies explained banking in a modern context, beyond the limits of maintaining the exchange rate. The reports envisaged a development in banking following Western European models that would include central banking too.¹¹⁵

In the second report, after explaining the bank concept as, “money-changing houses of the country that would facilitate and spread general commercial, industrial and agricultural transactions”, benefits of bank were mentioned as follows¹¹⁶;

¹¹¹ Rodkey, “Ottoman Concern about,” 349. The Ottomans decided likewise due their political concerns.

¹¹² Al, “Dersaadet Bankası Ne Zaman Kuruldu?,” 2.

¹¹³ Rodkey, “Ottoman Concern about,” 349.

¹¹⁴ Al, “Tanzimat Dönemi Bankacılık Teşebbüsleri,” 99.

¹¹⁵ BOA, İ.DH., 14211, in Active Araştırma Merkezi, “Dış Borç Bulma ve Banka Kurma Girişimleri,” *Active Bankacılık ve Finans Dergisi* 16, (2001): 5. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

¹¹⁶ “[B]anka denilen şey mu’amele-i umumiyye-i ticaret ve sanayi’ ve ziraati teshil ve tevzi zımında yapılan sarrafhane-i umumi-i memleket [...]” Active Araştırma Merkezi, “Dış Borç Bulma ve Banka Kurma Girişimleri,” 6.

1. The capital need for trade and agriculture would be provided. This would lead to improvement of these sectors and an increase in the collection of taxes.
2. Monetary problems stemming from debased coinage would be overcome.
3. The government would borrow from the bank and if the bank would be permitted to mint banknotes, there would be no need for new *kaimes*.
4. The bank would assist to the collection of taxes.

According to the report, the capital of the bank was supposed to be 100 million *kuruş*, 25 million of which would be transferred from the capital of the Banque de Constantinople. Alleon and Baltazzi would provide 15 million *kuruş*, as committed. The annual profit of the bank was estimated to be 10-12.5 million *kuruş*.¹¹⁷

The issues raised by the report were discussed at the *Meclis-i Mahsus* in May 1851 and the establishment of an ‘Ottoman Bank’ with a capital of 100 million *kuruş* was decided.¹¹⁸

Canning was pleased to hear the improvements but was still concerned about “the soundness of its title to public confidence”. He tried to convince Reşid Pasha to exclude Theodore Baltazzi from the project due to his questionable morality, and instead to include some well-known British bankers. According to

¹¹⁷ Active Araştırma Merkezi, “Dış Borç Bulma ve Banka Kurma Girişimleri,” 6.

¹¹⁸ Active Araştırma Merkezi, “Dış Borç Bulma ve Banka Kurma Girişimleri,” 7.

Canning, “an entirely Ottoman *Ottoman Bank* could not [...] be regarded as trustworthy”.¹¹⁹

In August 1851, when Reşid Pasha departed from his position, the obligations of the Banque de Constantinople to London that should be transferred within two months reached to £600.000.¹²⁰ In September 1851, the Porte decided to appeal to the contribution of public, which is known as *i'ane-i umumiyye*. At first, the amount to be collected has been determined as 455.000 *kese* (227.5 million *kuruş*), 355.000 of which were to be spent to withdraw *kaimes* whereas 100.000 *kese* would be used for deficits.¹²¹ Presumably, the Porte wanted to lessen the negative impacts of *kaimes* on the economic life before the establishment of Ottoman Bank, such as speculative profits made by Galata bankers and dense counterfeiting.

When January 1852 arrived, *i'ane* has not been started yet. The Porte could not pay its debt reaching to 130 million *kuruş* to the Banque de Constantinople on time. However, the Banque de Constantinople provided the credit by having the bills discounted in Europe. Thus nonpayment of bills led the Banque de Constantinople to be discredited abroad.¹²² In January 1852, Bank of England stopped discounting the bills of Banque de Constantinople, since the latter could not defray its obligations.¹²³ The bank losing its credit in Europe

¹¹⁹ Clay, *Gold for the Sultan*, 23

¹²⁰ Rodkey, “Ottoman Concern about,” 349.

¹²¹ Akyıldız, *Para Pul Oldu*, 83.

¹²² Al, “Dersaadet Bankası Ne Zaman Kuruldu?,” 2.

¹²³ Rodkey, “Ottoman Concern about,” 350.

began to speculate on *kaimes* to overcome its financial difficulties, which, as a result, put an end to its internal credit, too.¹²⁴

As a result of these developments, the Ottoman Bank project could not be realized. On March 1852, Alleon and Baltazzi agreed with Couturier, the then Paris agent of the Bank, to organize a foreign loan.¹²⁵ At first, the amount of foreign loan was calculated as 150 million *kuruş*.¹²⁶ On September 1852, a contract for a loan of 50 million francs (200 million *kuruş*) at 6% interest was arranged. The lenders were also to advance a sum of 11 million francs at once, in order to cover the obligations to London.¹²⁷

By September, the total sum of the obligations of Banque de Constantinople to Europe had reached at 311.165 *kese* (156 million *kuruş*).¹²⁸ In the meantime, the collected sum as the result of *i'ane* had reached to 300.000 *kese*, to which Alleon and Baltazzi voluntarily contributed with 250.000 and 150.000 *kuruş*, respectively. Although *i'ane* has come on the agenda in order to withdraw *kaimes*, up to September, total *kaimes* destroyed in front of the Sultan were only amounted to 80.000 *kese*.¹²⁹

In October 1852, although the advance was delivered, Abdülmecid announced that he would not approve the loan contract. Until November, 200.000 *kese* (100 million *kuruş*), most of which came from *i'ane* and Egyptian taxes, was transferred to the Bank by the government to settle its debts.¹³⁰ As will be

¹²⁴ Al, "Dersaadet Bankası Ne Zaman Kuruldu?," 3.

¹²⁵ Hulkiender, *George Zarifi*, 6. Clay, *Gold for the Sultan*, 578.

¹²⁶ Al, "Dersaadet Bankası Ne Zaman Kuruldu?," 4.

¹²⁷ Rodkey, "Ottoman Concern about," 350.

¹²⁸ Hulkiender, *George Zarifi*, 7.

¹²⁹ Akyıldız, *Para Pul Oldu*, 90, 96-97.

¹³⁰ Hulkiender, *George Zarifi*, 7.

mentioned later on¹³¹, it could not be possible until 1862, to withdraw *kaimes* as a whole.¹³²

In early January of 1853, the idea for internal borrowing had come to the agenda in order to pay the rest of the obligations of the Banque de Constantinople from a group of bankers, led by Psycharis including Zarifi, Rallis and Stephanovitch.¹³³ Another problem was the first installment payment and the indemnity of the annulled 1852 contract of foreign loan. Therefore, the Porte came to an agreement with Baring Brothers from London. According to the agreement, the payments amounting to 3.200.000 francs would be carried out by the firm. This debt to Baring Brothers would be settled via credits that were to be given again by Zarifi and Psycharis.¹³⁴

While Zarifi and Psycharis were dealing with the liquidation of the Banque de Constantinople, some of the foreigners appealed to the Porte in order to establish banks. The government began negotiations with Trouve-Chauvel, the former Finance Minister of France, for the establishment of a *Banque Nationale de Turquie*. The bank would be established with a capital of 100 million francs in order “to invest in building railways, roads, canals, in mines, forests and agriculture, and in commercial discount operations”.¹³⁵ Although the project could not be realized due to conflicts arising between Russia and the Ottoman Empire in the eve of the Crimean War, Trouve-Chauvel kept his interest in Ottoman

¹³¹ See page 78.

¹³² Akyıldız, *Para Pul Oldu*, 97.

¹³³ Hulkiender, *George Zarifi*, 7.

¹³⁴ Hulkiender, *George Zarifi*, 8-9.

¹³⁵ Autheman claims that such a project showed the desire of the government to improve its economy, which would result to significant increase in its financial resources. Autheman, *The Imperial Ottoman Bank*, 20.

finance.¹³⁶ Another request of an American citizen, named Duir, was rejected in April 1853.¹³⁷

Zarifi and Psycharis, playing important roles in the liquidation of the Banque de Constantinople, also began to interest in the establishment of a bank. They appealed to the Porte in March 1853 to establish an Ottoman Bank.¹³⁸ The board of directors was consisting of twelve leading financiers of Galata. Eight of them were Armenians including three members of the Düzoğlu dynasty and of Tingiroğlu Hoca Ohannes; three of them were Greeks, namely Dimitrius Psycharis, Georges Zarifi and David Glavanys, and the last one was a British, Charles Hanson.¹³⁹

The capital of the bank was determined as 400.000 *kese* (200 million *kuruş*). There would be an annual subvention to the bank amounted to 60.000 *kese*.¹⁴⁰ In return, the bank would advance 440.000 *kese*. The raise of this amount on London money market was to be realized via the firms of L.H. Hazelwood and E. H. Stanley. Trouve-Chauvel was the agent of the latter in İstanbul.¹⁴¹ The objectives of the bank were to withdraw debased coinage, to maintain exchange rate, to draw bills for trade and to convert *kaime* into cash at par value.¹⁴²

While the negotiations were going on, Theodore Baltazzi and Abraham Camondo presented another bank project to the Porte. The Porte, considering the

¹³⁶ Autheman, *The Imperial Ottoman Bank*, 20.

¹³⁷ Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 63.

¹³⁸ This bank neither has a connection with the Ottoman Bank attempt in 1851 nor with the Ottoman Bank of 1856. Hulkiender, *George Zarifi*, 11.

¹³⁹ Clay, *Gold for the Sultan*, 24; Hulkiender, *George Zarifi*, 13.

¹⁴⁰ Hulkiender, *George Zarifi*, 11

¹⁴¹ Clay, *Gold for the Sultan*, 24; Hulkiender, *George Zarifi*, 14.

¹⁴² Active Araştırma Merkezi, “Dış Borç Bulma ve Banka Kurma Girişimleri,” 8. Clay, *Gold for the Sultan*, 24.

project as an attempt to interrupt the negotiations with the Ottoman Bank that would mean lesser profits in the future, rejected the request.¹⁴³ Despite the refusal, Baltazzi was able to get the permission to maintain exchange rate at 1 pound sterling equaled to 132-133 *kuruş*.¹⁴⁴

On 6 April 1853, the concession approved by the Sultan was given to the founders of the bank. Afterwards, the founders signed a contract with Trouve-Chauvel for the raising of the necessary capital and gave him the concession they obtained. Although, they were told that they could commence the Bank in December 1853¹⁴⁵, “slightly less than reputable”¹⁴⁶ Trouve-Chauvel could not find the capital needed for the establishment of the bank. In the end, the Ottoman Bank could not be established and the concessionaires of the Bank surrendered the concession to the Porte in August 1854.¹⁴⁷ It should also be mentioned that the political problems with Russia and the outbreak of the Crimean War also had a negative impact on this failure.¹⁴⁸

2.2.3. Deliberation on Railways

The government tried hard to put all the solutions proposed in 1843 into action. Debasement of coinage was stopped and bimetallic standard began to be exercised. However, the weak structure of Banque de Constantinople and impacts of the 1848 revolutions made it impossible to maintain the exchange rates. The

¹⁴³ Hulkiender, *George Zarifi*, 13.

¹⁴⁴ Active Araştırma Merkezi, “Dış Borç Bulma ve Banka Kurma Girişimleri,” 8.

¹⁴⁵ Hulkiender, *George Zarifi*, 14.

¹⁴⁶ Clay, *Gold for the Sultan*, 29.

¹⁴⁷ Hulkiender, *George Zarifi*, 15.

¹⁴⁸ Eldem, *Osmanlı Bankası Tarihi*, 24-25.

collected fund as a result of the *i'ane* was transferred to the Bank for its obligations to Europe, subsequently preventing the withdrawal of *kaimes*. On the other hand, the attempts for a national bank failed due to limited funds. Therefore, the bureaucrats well understood that without foreign capital as well as the expertise, such a project would not be realized. Notwithstanding, they believed that foreigners should be prevented from having the majority.¹⁴⁹ After the liquidation of the Banque de Constantinople, there were many schemes of different financiers; however, because of the Crimean War they could not be put into implementation.

The other suggestion, which was maintaining an order in foreign trade, also could not be achieved since its success was mostly dependent on the others'. In fact, Ottomans sought for opportunities to increase its exports. Watching over new developments in the world, Ottomans attended to London Exhibition in 1851, which was the first example of international fairs.¹⁵⁰

In fact, one could observe significant increase in the exports, but that was still not sufficient to meet the volumes of import. In the Ottoman Empire, where transport infrastructure was insufficient, prices of goods at ports became higher than those in internal regions due to high transport costs which deteriorated the

¹⁴⁹ Al, "Tanzimat Dönemi Bankacılık Teşebbüsleri," 104.

¹⁵⁰ For more information about the London Exhibition please see Rifat Önsoy, *Tanzimat Dönemi Osmanlı Sanayii ve Sanayileşme Politikası* (Ankara: Türkiye İş Bankası Kültür Yayınları, 1988), 59-63. This example may also be considered in the framework of Ottoman's willingness for integration with Europe. Although there were many reforms realized until 1850's, it is uncertain whether these reforms mostly made with an incentive for integration. This incentive can be observed only after 1850's in literal sense, and especially after the Crimean War. Edhem Eldem, "Dış Borç, Osmanlı Bankası ve Düyun-u Umumiye", in *Osmanlı Maliyesi. Kurumlar ve Bütçeler*, by Mehmet Genç and Erol Özvar (İstanbul: The Ottoman Bank Archives and Research Centre, 2006), 96.

terms of trade against Ottomans.¹⁵¹ In a document dated 20 March 1853, it was suggested that the exports should be increased via improving transport infrastructure “[a]s import-export equality should be paid serious attention more than ever, and as it will be provided by paving roads, which is planned by the Sultan [...]”.¹⁵²

Again, while the negotiations were going on with the founders of the Ottoman Bank, Mehmet Namık Pasha suggested that rather than paying 60.000 *kese* annual subvention to the Bank, this amount, with some additions, should be used for the withdrawal of *kaimes* and construction of new (rail) roads.¹⁵³ The idea of improving infrastructure, especially railways, in order to increase export can also be seen in the unrealized bank project of Trouve-Chauvel. Although these opinions favoring railways began to be loudly expressed in 1853, the acquaintance of the Ottomans with railways had begun much earlier.

The first railway in modern sense began its operations on 15 September 1830 between Liverpool and Manchester.¹⁵⁴ In the meantime, by June 1830, Britain began to evaluate alternative routes that would shorten the way to India. Examining the route to Persian Gulf via the Euphrates, Colonel Chesney claimed that steamships could be operating on the Euphrates. In 1834, Mehmet Namık Pasha, then Ottoman ambassador to London, wrote to the Porte that if such an attempt could be realized, it would lead to an increase in customs revenues and

¹⁵¹ Pamuk, *Osmanlı Ekonomisi ve Dünya Kapitalizmi*, 38.

¹⁵² “[...] tesavi-i idhalat ve ihracata evvelkiden ziyade itina ve ihtimam olunması vâcibâtân olarak bu dahi sâye-i muvaffakiyet-vâye-i hazret-i şehinşâhîde derdest-i tasavvur olan tesviye-i tarik maddesinin icrasıyla hasıl olabileceğine binâen [...]” BOA, Y.EE., 137/18, 20.03.1853, in Hulkiender, *George Zarifi*, 12.

¹⁵³ BOA, Y.EE., 137/20, 20.03.1853, in Hulkiender, *George Zarifi*, 12.

¹⁵⁴ Al, “Kambiyo İstikrarının Sağlanması,” 4.

also Britain's need for Ottoman support.¹⁵⁵ Obtaining the concession, Chesney transported the steamships via camels; however, one steamship sank in 1836 on test cruise and the other one was left by its crew at Baghdad.¹⁵⁶ After this failure, Chesney suggested an alternative project, which was a railway line from İzmir to Persian Gulf. It was the first project to construct a railroad on Ottoman land. However, since Chesney could not find the necessary capital for the project, the construction did not realize.¹⁵⁷ British attempts for railroad construction, which have been mostly driven by colonist incentives, succeeded in getting another concession for a line from Alexandria to Cairo. The construction began in 1851 and after three years, the line began to operate.¹⁵⁸

Beginning of the construction might have caught the Ottomans attention, who viewed railroad as farreached project until then. From the beginning of the 19th century many reforms in the Ottoman Empire aimed at the modernization and recentralization of the Empire. Therefore, railroads might have served to the Ottoman's objectives. Railroad, being a useful tool for efficient transport of exports, could also be useful for the efficient collection of taxes.¹⁵⁹ Moreover, railways marked the economic development in the countries that achieved industrial revolution.¹⁶⁰ Although, "in terms of cause and effect, railways

¹⁵⁵ Melda Araz, "Impacts of Political Decisions in the Formation of Railroads and Railroad Architecture in Turkey between 1856 and 1950" (Master's Thesis, Middle East Technical University, 1995), 7.

¹⁵⁶ Engin, *Rumeli Demiryolları*, 35.

¹⁵⁷ Araz, "Impacts of political decisions," 7. Another unrealized railway project from İstanbul to Calais was proposed by a British, named Pave, in 1848. Cameron and Boyvkin, *International Banking*, 4. Murat Özyüksel, *Anadolu ve Bağdat Demiryolları* (İstanbul: Arba, 1988), 7-8.

¹⁵⁸ Muhteşem Kaynak, "Osmanlı Ekonomisinin Dünya Ekonomisine Eklemlenme Sürecinde Osmanlı Demiryollarına bir Bakış," *Yapıt 5*, (Haziran-Temmuz, 1984): 68.

¹⁵⁹ Al, "Para Piyasasında İstikrar Arayışları," 67-68.

¹⁶⁰ Zafer Toprak, "Demiryolu, Devlet ve Modernite," in *Demir Yol: Tren Çağı (Iron Track: Age of the Train)*, ed. Şennur Şentürk (İstanbul: Yapı Kredi, 2003), 10.

represented an effect for most of the industrialized countries”¹⁶¹, they also expedited economic development in return.¹⁶² On the other hand, railways were perceived as a cause for economic development in developing countries. Failing in its industrialization attempts in 1840’s, railways meant modernity itself for the Ottomans¹⁶³ in general terms, beginning from 1850’s.

In fact, for the time, the military and political advantages of the railways might not have been clear to the Ottomans. However, those advantages of railways would well be understood as demonstrated in the Crimean War.

¹⁶¹ Toprak, “Demiryolu, Devlet ve Modernite,” 11.

¹⁶² For instance, between 1846-48, railways directly led to 300.000 increases in employment, only in Britain. Mehmet Arif Ay, “Osmanlı İmparatorluğu’nun Dünya Ekonomisine Entegrasyonunda Demiryollarının Rolü,” (Master’s Thesis, Marmara Üniversitesi Sosyal Bilimler Enstitüsü, 2002), 10.

¹⁶³ Toprak, “Demiryolu, Devlet ve Modernite,” 11-12.

CHAPTER III:

THE CRIMEAN WAR: FOREIGN LOANS AND RAILWAYS

3.1. Beginning of Foreign Loans

In March 1853, a conflict arose between the Ottoman Empire and Russia under the pretext of holy lands in Jerusalem. After the occupation of Moldavia and Wallachia by Russia in June 1853, the Porte appealed to the founders of the Ottoman Bank busy trying to collect the necessary capital for the Bank, for a credit needed to prepare for a probable war against Russia.¹⁶⁴ In fact, according to the contract, the bank should not advance any credit to anyone, therefore, the founders promised to provide the requested amount of 90.000 *kese* (45 million *kuruş*) from their own accounts. 15.000 *kese* would be advanced within days, whereas the rest would be raised from Europe.¹⁶⁵

The Porte was anxious about the probable results of such a loan since an internal credit might turn into a foreign one.¹⁶⁶ Therefore, a contract has been signed with the bankers declaring that the government would not be responsible

¹⁶⁴ Hulkiender, *George Zarifi*, 15.

¹⁶⁵ Hulkiender, *George Zarifi*, 16.

¹⁶⁶ It shows the Porte's concern for foreign intervention through finances.

for any consequences of the securities of a foreign loan.¹⁶⁷ However, the news came from Europe did not give any hope for a foreign loan. Abandoning its hopes for funds, the government annulled the debt contract that was signed with the bankers and minted new *kaimes* amounted to 100.000 *kese*, in September 1853.¹⁶⁸ At the end of the month, on 29th of September, the Ottoman Empire declared war against Russia.¹⁶⁹

Due to the financial burden of the war, the Porte inquired about any possibilities for a foreign loan from Europe. In the meantime, the Porte borrowed from the Galata bankers in huge amounts.¹⁷⁰ However, the attempts of the Porte to provide foreign credit were rejected by the European bankers. In order to meet the increasing expenditure of the war, the Porte issued army *kaimes*, which would circulate in the wartime and *esham-i mümtaze*, securities for short-term advances, amounting to 60.000 *kese*.¹⁷¹

On 12 March 1854, after the signing of the Treaty of İstanbul, Britain and France declared war against Russia by taking the Ottoman's side.¹⁷² It could only be possible in the wake of this alliance to arrange a foreign loan on 4 August 1854 with Dent, Palmer & Co. from London and Goldschmidt & Co. from Paris, for a sum of £5 million, £2 million of which was to be optional.¹⁷³

After resisting to any foreign loan for many years, due to the increasing expenditures of the Crimean War, the Ottoman Empire made its first foreign debt.

¹⁶⁷ Hulkiender, *George Zarifi*, 17.

¹⁶⁸ Hulkiender, *George Zarifi*, 18.

¹⁶⁹ Akyıldız, *Para Pul Oldu*, 54.

¹⁷⁰ Hulkiender, *George Zarifi*, 19.

¹⁷¹ Akyıldız, *Para Pul Oldu*, 73.

¹⁷² Akyıldız, *Para Pul Oldu*, 54.

¹⁷³ Hulkiender, *George Zarifi*, 20.

In fact, this loan was realized after many difficulties. In order to understand the reasons of these difficulties, one should look at the previous experiences of the Ottoman Empire, especially the annulled contract of 1852.

3.1.1. The Loan of 1854

Although the first foreign loan was realized in 1854, the idea for it had been stated many years ago, again as a result of a conflict with Russia. Following the occupation of Crimea by Russia in 1783, a suggestion for borrowing from France, Holland or Spain had been opposed with a reasoning that borrowing from Christian countries would be inappropriate. The suggested country instead was Morocco.¹⁷⁴ However, the attempt proved abortive. The negotiations with Holland and Spain began six years later, however, these were also futile.¹⁷⁵

The second attempt was made by Reşid Pasha in 1840. Through Ponsonby, the then British ambassador, he made detailed arrangements with some British bankers. However since the bankers' demand of a guarantee by the British government was rejected, the attempt could not be concluded.¹⁷⁶

In time, budget deficits increased in significant amounts reaching at 4.163.000 *kuruş* in 1841, 15.263.404 *kuruş* in 1847, 38.586.642 *kuruş* in 1848 and 88.998.000 *kuruş* in 1849.¹⁷⁷

¹⁷⁴ Active Araştırma Merkezi, "Dış Borç Bulma ve Banka Kurma Girişimleri," 1.

¹⁷⁵ Binhan Elif Yılmaz, "Osmanlı İmparatorluğu'nu Dış Borçlanmaya İten Nedenler ve İlk Dış Borç," *Akdeniz İ.İ.B.F. Dergisi* 4, (2002): 194.

¹⁷⁶ Olive Anderson, "Great Britain and the Beginnings of the Ottoman Public Debt, 1854-55," *The Historical Journal* 7, no: 1 (1964): 47.

¹⁷⁷ Yılmaz, "Osmanlı İmparatorluğu'nu Dış Borçlanmaya," 191.

As mentioned before, Stratford Canning proposed on 22 August 1850 for a loan rejected though by the Porte in the end.¹⁷⁸ After the rejection, in 1851, the Porte began to work on a state bank project, named the Ottoman Bank. However, the bankruptcy of the Banque de Constantinople put an end to the project and Couturier was sent to Europe in order to arrange a placement that would be used for the obligations of the Banque de Constantinople.¹⁷⁹

On 7 September 1852, the contract for a loan of 50.000.000 francs with 6% interest rate was signed by Couturier and Callimaki, the then Ottoman ambassador to Paris, with Bechet, Dethomas et Cie. of Paris and Deveaux and Co. of London.¹⁸⁰ However, the companies began to sell the securities of the loan on the London and Paris markets, without waiting for the approval of the Sultan. A sum of 20 million francs was transferred within a few days to the company of Baltazzi at London.¹⁸¹ Callimaki, describing the dense demand for securities in both markets, mentioned that the subscriptions had reached to 50 millions in few hours, and to twice of this amount in a day. According to Callimaki, the demand demonstrated the people's trust in Ottoman future. The day before, nobody knew about the Ottomans financial credit, but in a day, it had been equaled to that of European countries.¹⁸²

In fact, already being hesitant about a foreign loan, Abdülmecid did not find the twenty-three-year term of the contract appropriate and in the end, he did

¹⁷⁸ Rodkey, "Ottoman Concern about Western Economic Penetration in the Levant 1849-1856," 348-349.

¹⁷⁹ See page 34.

¹⁸⁰ Eldem, *Osmanlı Bankası Tarihi*, 25. Hulkiender, *George Zarifi*, 6.

¹⁸¹ Şevket Kamil Akar and Hüseyin Al, *Osmanlı Dış Borçlanmasının Başlaması ve Kurulan Gözetim Komisyonları (1854-1856)* (İstanbul: Osmanlı Bankası Arşiv ve Araştırma Merkezi, 2003), 4.

¹⁸² BOA, Y.EE., 137/6, 23. Z.1268 / 8.9.1852, in Hulkiender, *George Zarifi*, 7.

not approve it.¹⁸³ Disapproval of the loan led to a shock in the markets of both countries. In order to fix the shattered financial credit of the Ottoman Empire, an indemnity with a total 2.2 million francs was paid to the subscribers of the loan.¹⁸⁴ The newspapers at the time published several articles discussing the loan and the reasons of the rejection: as a result of the pressure of the religious groups, and the Galata bankers and of political issues. Whatever the reasons were, non-approval of the contract led to negative thoughts in the international financial circles towards the Ottoman's future loans. The increased country risk meant higher costs for borrowing in the future.¹⁸⁵

The attempt of the Porte for a new loan in the wake of the Crimean War faced with the negative opinions of the financiers, were mostly shaped by the financial fiasco in 1852.¹⁸⁶ Although France advanced 10 million francs, it was far from meeting the needs of the Ottomans. Therefore, at the end of 1853, the Porte authorized Namık Pasha to arrange a loan not below an issue price¹⁸⁷ of 95. In fact, according to Clarendon, the then British foreign secretary, the terms Namık Pasha insisted upon were so demanding that even England itself could not get them in times of peace.¹⁸⁸

¹⁸³ Clay, *Gold for the Sultan*, 23.

¹⁸⁴ Active Araştırma Merkezi, "Dış Borç Bulma ve Banka Kurma Girişimleri," 4.

¹⁸⁵ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 4.

¹⁸⁶ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 1.

¹⁸⁷ For example, at an issue price at 80, government gets 80 liras in return for 100 liras debt. In other words, each bond has a value of 100 (nominal value), but is sold from 80 (emission price). As a matter of fact, this is to government's disadvantage, however, in order to succeed in borrowing this type of operations is carried out. Kırkor Kömürçan, *Türkiye İmparatorluk Devri Dış Borçlar Tarihçesi: (Düyun-ı Umumiye Tarihçesi)* (İstanbul: Şirket-i Mürettibiye Basımevi, 1948), 12. For example, if a bond having a nominal value of 100 liras is sold at 8% interest rate and an issue price of 80, the lender gets an effective rate of 10%.

¹⁸⁸ Anderson, "Great Britain and the," 48.

There have been no improvements regarding foreign borrowing until 12th March 1854, when Britain and France allied with the Ottomans against Russia. Right after the establishment of the alliance, negotiations began with the Porte and Baron James de Rothschild. A loan of £2.2 million at 6% interest rate from 85 issue price was agreed by the parties. The subscription for the loan began on 8 April 1854; however, the total subscription in London was realized only as £1.100.000, by the 23rd of April.¹⁸⁹

As the Times wrote on 23rd of March, the biggest barrier in front of a probable loan was the untrustworthy attitude of the Porte in 1852.¹⁹⁰ It became clear then that, without the support of the governments of the two countries, a foreign loan would not be realized. However, Clarendon refused to give any support that would create a new financial burden since the British government had already levied new taxes from the public due to the war. Unsurprisingly, Lord Palmerston also rejected such a support and suggested to borrow according to the terms the people consented.¹⁹¹

In June 1854, due to the failure of Namık Pasha, the Porte authorized two foreign merchants of Galata, Black and Durand, to conclude the negotiations. After hard negotiations, these two agreed on the assignment of the Egyptian tribute to the servicing of the loan, one of the safest sources of income for the Ottomans.¹⁹² This time, Trouve-Chauvel, who had applied to the Porte to establish

¹⁸⁹ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 4-5.

¹⁹⁰ *The London Times*, 23 March 1854, in Active Araştırma Merkezi, “Türkiye’de Bankacılığın Tarihsel Gelişimi: Dış Borçlanmanın Başlaması,” *Active Bankacılık ve Finans Dergisi* 17, (2001): 1. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

¹⁹¹ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 5.

¹⁹² Anderson, “Great Britain and the,” 49-50; Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 7-8.

a bank and took part in the Ottoman Bank project with some Galata bankers in 1853, claimed that the Egyptian tribute had already been assigned to the Ottoman Bank. Aware of possible consequences of such a rumor, the Porte issued denials, one of which was published in London Times on 21st of August.¹⁹³

In the meantime, on the 8th of August, Palmer of London and Goldschmidt of Paris declared that they could place a loan at 6% with an issue price 80, if Clarendon would certify that the negotiators were fully authorized and that the terms would be honored.¹⁹⁴ Although the British government did not give any guarantee for the loan, Clarendon announced that the two negotiators had been fully authorized by the Sultan to sign the contract that assigned the Egyptian tribute for the servicing of the loan.¹⁹⁵

After the support of the British cabinet was provided, the loan was opened to public and got oversubscription.¹⁹⁶ The contract provisioned a loan of £5 million, with 6% interest rate and an issue price of 80. The term was identified as 33 years and the servicing of the loan would be made by the Egyptian tribute, as agreed upon.¹⁹⁷

3.1.2. The Loan of 1855

Till the spring of 1855, £3 million of the 1854 loan was already used by the Ottomans. In the eve of the peace negotiations at Vienna, the rest £2 million

¹⁹³ Active Araştırma Merkezi, "Türkiye'de Bankacılığın Tarihsel Gelişimi," 2.

¹⁹⁴ Anderson, "Great Britain and the," 51.

¹⁹⁵ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 8.

¹⁹⁶ Anderson, "Great Britain and the," 51.

¹⁹⁷ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 8.

was far from meeting the expenditures made till then. When some attempts for a new loan began in March, the Banker's Magazine, once again, reminded the cancelled transaction of 1852.¹⁹⁸ The Porte, acknowledging the difficulties in raising a new loan without the guarantees of Britain and France, asked both governments to guarantee £2 million, £1 million each, on 5th of April.¹⁹⁹ Due to the collapse of the peace negotiations, the amount needed rose to £5 million, including the unused £2 million of the 1854 loan. After hard discussions, both governments decided to guarantee the payments of the loan under one condition, which was the establishment of a commission that would control the use of money only for the war.²⁰⁰

There were two offerings for the loan from N.M. Rothschild & Sons and from Palmer, Mackillop, Dent & Co. In the end, Rothschild's proposal to raise a loan of £5 million at 4% with an issue price at 102.6, which was above par, was preferred.²⁰¹

3.1.3. The Commissions of Control

Despite all difficulties the Porte must have been satisfied with the results. In the wartime, when all internal sources were already exploited, the necessary funds could be found at a much lower cost than that of Galata bankers. In addition

¹⁹⁸ Active Araştırma Merkezi, "Türkiye'de Bankacılığın Tarihsel Gelişimi," 5.

¹⁹⁹ Anderson, "Great Britain and the," 54.

²⁰⁰ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 10-11. Since the issue price is above par value, the terms can be considered very favourable.

²⁰¹ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 11.

to this, the terms were longer and the amounts were bigger. However, “what was not yet clear were the political implications of this new process”.²⁰²

Early in the Crimean War, several attempts of the Ottomans to raise a loan had failed because of the reluctance of the lenders, due to the negative experience of 1852. In order to satisfy the lenders, the tribute of Egypt was assigned to servicing of loan. Spreading of rumors by Trouve-Chauvel, claiming that the Egyptian tax has already been transferred to the Ottoman Bank, made the things worse. It could be possible to raise a loan only after Clarendon certified the authority of the negotiators. After this favor, Clarendon told Stratford Canning to advise the Porte “unofficially to volunteer some special measures of control”.²⁰³ The Ottomans unwillingly accepted this advice since such control might have demonstrated the alliance on the subject and increased the financial credit of the Empire. Therefore, the Porte agreed on the establishment of a commission that would be consisted of five members, three of which would be appointed by the Porte and one by each of countries.²⁰⁴

In October 1854, the members of the Commission were announced. The British Embassy appointed to the Commission D. Revelaky, whereas French Embassy appointed D. Glavanys, both of whom were among the Galata Bankers,. The main objective of the Commission was to control the use of money only for war expenditures.²⁰⁵

²⁰² Edhem Eldem, “Ottoman Financial Integration with Europe: Foreign Loans, the Ottoman Bank and the Ottoman Public Debt,” *European Review* 13, no.3 (July, 2005): 435. Also available on <http://www.econ.uoa.gr/UA/files/964411180..pdf>.

²⁰³ Anderson, “Great Britain and the,” 52.

²⁰⁴ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 13.

²⁰⁵ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 14.

In the first loan, Britain and France gave their support but did not guarantee the interest dues. In the 1855 loan, they did guarantee the interest payments under one condition, which was the establishment of a commission of control. Being different from the first commission, which was established voluntarily in a sense, the second one, being formally demanded by Britain and France, was faced with Ottoman resistance. In the end, Ottomans unofficially promised to establish a commission.²⁰⁶ In the Commission, Edmund Hornby would represent the British government and M. de Cadrossi would represent the French government whereas the Porte would be represented by Kani Pasha.²⁰⁷

The operations of both commissions faced with strong resistance by the Galata bankers, especially Baltazzi. The Commission of 1854 could only be able to enumerate the expenditures, rather than controlling.²⁰⁸ On the other hand, the Commission of 1855 did not begin its operations until 24 January 1856.²⁰⁹ In addition to the Ottomans' unwillingness, the Galata bankers were also anxious about the probable control of the Commission over their contracts with the Porte. In fact, the Commission acted together with the Porte in order to prevent speculations on the exchange rate, which were extensively being exercised by the Galata bankers.²¹⁰ Hornby mentioned in his memoirs, that they did whatever they could to prevent the misuse of the credit. Hornby claimed that if they had acted according to the local conditions, they would have made high profits; even they

²⁰⁶ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 19.

²⁰⁷ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 20.

²⁰⁸ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 27; Anderson, "Great Britain and the," 53.

²⁰⁹ Anderson, "Great Britain and the," 58.

²¹⁰ Active Araştırma Merkezi, "Türkiye'de Bankacılığın Tarihsel Gelişimi," 10; Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 29.

had been offered to accept a cheque amounted to £1.250 by Baltazzi.²¹¹ According to Hornby, the misused amount was not more than half a million pounds sterling.²¹²

It should be mentioned that all the obstacles made by the Ottoman bureaucrats and the Galata bankers strengthened the negative opinions of European financiers about the Ottoman finances. As a matter of fact, such acts creating uncertainty augmented the risk perception of foreign investors and imperiled the success of future loans. Although, these two commissions represented a form of foreign control over Ottoman finance, they cannot be considered as prototypes of Public Debt Administration (*Düyun-u Umumiye*), which was to be established in 1881, since the main concern was to ensure the efficient use of the loans.²¹³

3.2. Understanding the Importance of Railways

It was mentioned that, one of the reasons of low Ottoman's exports compared to its imports was the lack of suitable means of transportation. In order to reverse this reality, Ottomans had thought about the economic benefits of railways. However, due to the outbreak of the Crimean War, those plans could not be realized. During the war, the imports from Europe, particularly from Britain, almost doubled from 1854 to 1855, which meant a significant increase in the

²¹¹ Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 29.

²¹² Anderson, "Great Britain and the," 61.

²¹³ Eldem, "Ottoman Financial Integration," 435, Akar and Al, *Osmanlı Dış Borçlanmasının Başlaması*, 30.

foreign trade deficit.²¹⁴ Therefore, the Ottomans turned to their plans about railway construction particularly in the Balkans.

In this respect, the Porte might have appealed to its allies for technical assistance for a possible Balkan railway. In a document dated 28 January 1855, two British engineers, namely Mr. Aumon Liz and Mr. Matin Liz, demanded their expenditures to be repaid in return for their investigation for a possible railway route in the Balkans, presumably performed in 1854. They also investigated the feasibility of a series of projects such as; the construction of a port in Constanza, the organizing of shipping services between İstanbul and Romania, and of opening up the mines.²¹⁵

The other ally, France, also sent engineers for the same purposes. A document dated 19 March 1855 displayed the efforts of the Ottoman authorities to provide all means for the French engineers, who would investigate a possible railway route from Constanza to Silistre including the cities such as Şumnu, Varna and Ruschuk.²¹⁶

The Crimean War also demonstrated to the Ottomans the strategic importance of railways. According to the allies, the war could only be won with the fall of Sebastopol. Therefore, allied troops were stationed at Balaklava, a small port south of Sebastopol. However, the winter proved that the fall of the city would require a long and exhausting siege. By late February 1855, Samuel Morton Peto and Thomas Brassey offered to construct a light railway from Balaklava to Sebastopol via Kadikoi, in order to carry the supplies needed for

²¹⁴ Clay, *Gold for the Sultan*, 27.

²¹⁵ BOA, İ.MMS., 4/138, 09.Ca.1271 / 28.01.1855.

²¹⁶ BOA, A.MKT.UM., 186/39, 29.C.1271 / 19.03.1855.

troops.²¹⁷ In seven weeks, seven miles were constructed. When it was completed, the railway facilitated better supply and in the end it was the railway that won the war.²¹⁸

The military use of railways as well as its economic advantages might have tempted Ottoman bureaucrats. A railway line would provide better and faster military control in the Balkans and ultimately would have strengthened the political power of the Ottoman Empire on its dominions. In fact, “[b]ecause railways can change spatial realities; they have been a favored tool of empire builders.”²¹⁹

Abdülmeçid in his speech to ministers in June 1855 stated that, he tried hard not to borrow from Europe. However, since the borrowing was realized, then the revenues should be increased which could only be done by constructing railways.²²⁰ There were various pictures of Liverpool-Manchester train in his room, and he always mentioned his willingness for such trains operating in his country.²²¹

²¹⁷ Andrew Lambert and Stephen Badsey, *The Crimean War* (Gloucestershire: Alan Sutton, 1994), 168; Paul Kerr, *The Crimean War* (London: Boxtree, 1998), 113-14.

²¹⁸ For more information, see Brian Cooke, *Grand Crimean Central Railway: The Railway That Won a War* (Knutsford: Cavalier House, 1997). The Ottomans encountered with telegraph also in the Crimean War. England, laid a line under the sea from Balaklava to Varna and they appealed to the Ottomans to lay out a line between Varna and İstanbul, on 12 May 1855. France, too, appealed to the Ottomans for a line between Varna, Şumnu, Rusçuk and Bucharest, in 1855. Bahri Ata, “Talihsiz Osmanlı Kuşları: On Yıl Geciken Telgraf ve Stratford Canning,” *Türk Yurdu* 19-20, Cilt 148-149, (2000): 150-155.

²¹⁹ Peter Hertner, “The Balkan Railways, International Capital and Banking from the End of the 19th Century until the Outbreak of the First World War” (presented at the EABH Annual Conference ‘Finance and Modernisation’, Wien, 20–21 May 2005), 4.

²²⁰ Ahmed Cevdet Paşa, *Ma’ruzat*, trans. Y. Halaçoğlu (İstanbul: Çağrı, 1980), 7.

²²¹ Engin, *Rumeli Demiryolları*, 37-38.

Because of the financial difficulties and limited technical capacity²²², it might have seemed impossible to the Ottomans to try to construct such a railroad on their own. Therefore, in October 1855, the government denounced through the press that, it planned to construct a railroad between İstanbul and Belgrade. For this purpose, experience and capital of the Europeans were needed and everything would be done to support those who were interested in the project.²²³

It seems that Ottomans believed that they could find the necessary capital for the project. In fact, despite all their initial reluctance, selling bonds in the European markets with twenty-year term or longer must have seemed reasonable to the Ottoman bureaucrats, especially when compared to the costs associated with debasements and paper money.²²⁴

The first reply to the invitation of the Ottomans came after months from a member of British Parliament, named Labro, in 22 December 1856. In his letter to the Grand Vizier Reşid Pasha, Labro emphasized the advantages of a railway that would pass through İstanbul, Salonika, Silistre, Varna, Bucharest and Belgrade connecting to Enez (Ainos), located on the north Aegean coast.²²⁵

According to Labro, such a line might provide considerable commercial advantages to the Ottomans. Since the Austrian government decided to construct a railway between Vienna and Wallachia, and the line would be extended to Bucharest by Wallachia, a railway line that would connect the Aegean Sea (Enez) to Varna would provide a continuous transport for goods. Therefore, Ottomans could collect transit charges from the goods that would be exported to/imported

²²² Murat Özyüksel, *Hicaz Demiryolu* (İstanbul: Tarih Vakfı, 2000), 10.

²²³ Engin, *Rumeli Demiryolları*, 44.

²²⁴ Pamuk, "From Bimetallism to the," 3.

²²⁵ Engin, *Rumeli Demiryolları*, 44-45.

from Austria. Since all the goods would be transported through Ottoman territories, Moldavia and Wallachia would be attached to the Empire. Besides, in cases of war or revolt, troops would be easily transported to Balkans.²²⁶

As a result of these, on 23 January 1857, a firman was granted to Labro, which was to be valid for 99 years as long as complied with all laws and regulations of the Ottoman Empire, for a railway construction from İstanbul to Edirne, Şumnu and Ruschuk, and from Edirne to Enez or other district on Aegean coast.²²⁷ However, Labro could not find the caution money until February and requested for a period of grace. On 5th of April, the Porte decided to inform him that there would be no more additional periods and the attempt proved abortive.²²⁸ A second agreement for Balkan railways was made with some entrepreneurs in April 1860. Due to unliquidated encumbrances, this agreement was also cancelled on 2 December 1861.²²⁹

Despite all the willingness of the Ottomans, it could not be possible to start the construction of the Balkan railways until 1869 when Baron de Hirsch was to be authorized. Yet, there were in fact some minor railway constructions such as İzmir-Aydın-Kasaba, Constanza-Cernovada and Varna-Ruschuk, which were mostly initiated by British interests.

İzmir, being a center for international trade, always drew attention of the Europeans. However, high transport costs from internal regions created additional burden on the prices of goods. In order to overcome this problem, the idea of a railway construction from İzmir to internal regions came to the agenda of the

²²⁶ Engin, *Rumeli Demiryolları*, 44-46.

²²⁷ BOA, A.DVN.MKL., 2/13, 23.01.1856.

²²⁸ Engin, *Rumeli Demiryolları*, 46-47.

²²⁹ Engin, *Rumeli Demiryolları*, 47.

Europeans. Therefore, on 11 July 1856, Robert Wilkin appealed to the Porte for a concession to construct a railway between İzmir and Aydın on behalf of Joseph Paxton and his friends. The firman was secured in 23 September 1856²³⁰, and on 14 October 1856 an agreement was signed between the Porte and a London-based company founded by Joseph Paxton, George Whytes, William Jackson and Augustus Rixon. The term of the concession would be 50 years and after the payment of 24.000 liras a firman should be granted to the company concerning the accorded privilege.²³¹

In the meantime, the rails that had been paved by the British army in Balaklava were bought by the Ottomans and located in a proper and convenient place in May 1856.²³² In the document dated 15 December 1856, the Porte ordered those rails to be transported to İzmir. After the identification of the route and the establishment of the Company, the rails were to be paved accordingly.²³³ In May 1857, the concession was transferred by Paxton to another English group consisting of G. D. Warren, R. M. Stephenson and W.G. Thomas. In the same month, the new group established *the Ottoman Railway Company from Symrna to Aidin*.²³⁴

The construction of the line began on 22 September 1857. However, on 5 April 1858, the company stopped the construction until November due to some liquidity problems. In 1860, the contractor requested for a period of grace since he could not finish the construction on time. Although, the Porte had the right to

²³⁰ Akyıldız, *Osmanlı Dönemi Tahvil*, 50.

²³¹ BOA, İ.HR., 136/7040, 14.09.1856.

²³² BOA, A.MKT.NZD., 185/25, 09.N.1272 / 14.05.1856.

²³³ BOA, İ.MMS., 8/345, 16.R.1273 / 15.12.1856

²³⁴ Akyıldız, *Osmanlı Dönemi Tahvil*, 96.

cancel the contract, for the reason that “[i]t is not compatible with the badge of the Sublime State, i.e. munificence and generosity, to annul the road concession, whose construction was the first in the Sultan’s Well-Protected Domains and is expected to be completed in the near future, due to lapse of time after many sacrifices of the Sublime State to succeed in its desire”, the term was extended for three years.²³⁵ In 1863, the contractor, once again, appealed to the Porte for a revision in the contract, and a supplemental agreement was signed by both parties on 10 June 1863. The line, which was to be operated in four years, began to operate in 1866, after almost ten years of construction period.²³⁶

Most probably, the main reason for the delays in railway construction was the financial uncertainty in the Empire due to the delays in establishment of a national bank. Ironically, this uncertainty partly stemmed from the Ottomans’ preference to place banking concessions into the hands of those who had some kind of relation with railway construction rather than those involved solely in banking issues.

In fact, this point was stated by Sleigh who was trying to get a concession for a bank beginning from early 1855. In his letter to his agent in Constantinople, which was written on 9 October 1855 right after the Porte’s announcements for Balkan railways, Sleigh dictated to him that he should underline the fact that, it would be impossible for British capitalists to cooperate with the government in

²³⁵ “Memalik-i Mahruse-i Hazret-i Şahane’de en evvel inşasına mübaşeret olunmuş ve husul-i matlab için şimdiye kadar taraf-ı Devlet-i Aliyye’den pek çok fedakarlık edilerek hitamı kuvve-i karibeye gelmiş olan tarikin mürur-ı müddet-i ma’lume ile münfesihi olan imtiyazı tarafına Devlet-i Aliyye’nin şî’ar-ı adili olan fütüvvet ve mürüvvet icabınca münasib olmayacağı [...]”. Akyıldız, *Osmanlı Dönemi Tahvil*, 52-53.

²³⁶ Akyıldız, *Osmanlı Dönemi Tahvil*, 52-53.

construction of railways, in case of inexistence of a bank that would efficiently manage the monetary system.²³⁷

3.3. The Imperial Reform Edict and Banking

Besides the change in perceptions regarding foreign debt and railways, the Crimean War also stipulated a radical change about the perception of Europe in the eyes of the Ottoman elite. For the first time in European history, the Ottoman Empire was regarded as a Western state under the invasion of an Eastern one, namely Russia. As a result of this European war rhetoric, the Queen of England, the Emperor of France and the Ottoman Sultan were pictured hand-in-hand on the commemorative medals prepared for the Crimean War.²³⁸ It is doubtful whether the Europeans were solely honest; however, it is certain that the Ottomans keenly accepted this rhetoric. Rather than only being a part of this solid alliance, the Ottomans actually strived for being a part (or member) of the civilization represented by the allies.²³⁹ Upon receiving the *Legion d'honneur* from the hands of French ambassador, Sultan Abdülmecid expressed his honest wish to see the Ottoman Empire into the family of European nations:

“ I firmly hope that my ceaseless efforts towards the happiness of all my subjects shall be crowned with the hoped success and that my Empire, henceforth a member of the great family of Europe, will prove to the entire

²³⁷ Eldem, *Osmanlı Bankası Tarihi*, 37.

²³⁸ Eldem, “Dış Borç, Osmanlı Bankası ve Düyun-u Umumiye,” 96.

²³⁹ Eldem, “Dış Borç, Osmanlı Bankası ve Düyun-u Umumiye,” 97.

*universe that it is worthy of a prominent place in the concert of civilized nations.”*²⁴⁰

In this respect, a little more than a month before the signing of the Paris Peace Treaty, on 18 February 1856, Sultan Abdülmecid promulgated the famous *Islahat Fermanı* (The Imperial Reform Edict), which officially confirmed the Sultan’s intention to join the Concert of Europe as well as his willingness for introducing a number of reforms in various areas. The 24th and 25th articles of the Decree regarding monetary and financial issues are given below:²⁴¹

“[...]and institutions such as banks will be established in order to correct the coinage system of My Sublime State and to give credit to its financial affairs, and appropriate facilities should be achieved so that those resources be allocated that are necessary to all matters constituting the source of the material wealth of My Well-Protected Domains. Sound facilitations will be carried out by eliminating the causes that block the expansion of agricultural and commercial affairs and by paving the roads and opening canals that are necessary to transport the products of My Well-Protected Domains. For this purpose, it will be necessary to take advantage of the education, sciences and capital of Europe and to apply them gradually after a thorough examination of their circumstances.”

Besides his devotion to the ideal of the Concert of Europe, as seen from the articles, Sultan Abdülmecid keenly desired the establishment of banks that would facilitate a suitable financial environment for the Empire and the construction of railways by capital to be accumulated in banks and by that of the

²⁴⁰ Eldem, “Ottoman Financial Integration,” 432.

²⁴¹“Devlet-i Aliyemin tashih-i usul-u sikke ile umur-ı maliyesine i’tibar virecek banka misillü şeyler yapulub memalik-i mahruse-i şahanemin menba-ı servet-i maddiyyesi olan hususata iktiza eden sermayelerin ta’yiniyle ve mahsulat-ı memalik-i şahanemin nakli için icab eden turuk ve cedavilin küşadiyle ve umur-ı ziraat ve ticaretin tevessü’üne hail olan esbabın men’iyle teshilat-ı sahihanın icra olunması ve bunun için maarif ve ulum ve sermaye-i Avrupadan istifadeye bakılması esbabının bil-etraf mütaalasıyla peyderpey mevki’i icraya konulması maddelerinden ibaret olmağla [...]” Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 65. Eldem, “Ottoman Financial Integration,” 433.

Europeans. Having seen the strong commitment of the Porte for further reforms, by March 1856, Europeans began to pour in İstanbul offering to establish banks that would provide necessary funds to unlock the riches of the Empire.²⁴²

²⁴² Clay, *Gold for the Sultan*, 29.

CHAPTER IV:

ENDEAVORS FOR A NATIONAL BANK

4.1. The First Phase of the Banking Concessions

4.1.1. The Ottoman Bank

There were some attempts to found banks in the Ottoman Empire after the outbreak of the Crimean War and prior to the promulgation of the *Islahat Fermanı*. In the wartime, such an attempt might have looked rather imaginary, both to the Porte and to financiers. Interestingly, this was not so for two Britishmen, Stephen Sleight and Peter Pasquali, who were planning of a bank named British Bank of the Levant, even in February 1855. They both took part in the foundation of the Bank of Egypt and then began to be interested in Ottoman finances.²⁴³

²⁴³ Eldem, *Osmanlı Bankası Tarihi*, 27-28. Active Araştırma Merkezi, “Ottoman Bank’ın Kuruluşu,” *Active Bankacılık ve Finans Dergisi* 18, (2001): 2. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

Due to the uncertain conditions of the war, they tried to get a royal charter from the Queen that would secure their company against the risks of the Empire. On March 1855, they met with Mr. Mille, a Frenchman working on behalf of the Porte, and asked him to present their request for a firman to *Meclis-i Ali-i Tanzimat*.²⁴⁴ Right after that, the project was presented to the British Palace for approval with a new name, that of the Bank of Constantinople. Hearing encouraging news from Mille, Sleigh and Pasquali dispatched Edward Zohrab, who had been the Ottoman ambassador to London for 16 years, as their representative to İstanbul on 27th of July.²⁴⁵

Zohrab succeeded to meet with Fuad Pasha, the former president of *Meclis-i Ali*, and Mehmed Pasha, then president of *Meclis-i Ali*, at the end of September. Both of them welcomed the project but especially Fuad Pasha emphasized that there would be no need for a firman to establish such a bank which would deal mostly with commercial issues. In fact, Zohrab was aware of the point raised by Fuad Pasha. However, potential partners of the bank, George Carr Glyn from Glyn, Mills and Co. and Henry Kingscote, promised to support the project only if they were provided with a firman. On the other hand, the Porte rejected to give a firman without seeing the list of board members of the bank.²⁴⁶

On December 1855, Zohrab wrote to Sleigh that he met with Ali Pasha, the then Grand Vizier, and the Pasha was so impressed when he heard the benefits to be provided by the bank that he wrote a letter to the members of *Meclis-i Ali*, in which he strongly recommended them to evaluate all benefits of the bank. In the

²⁴⁴ Eldem, *Osmanlı Bankası Tarihi*, 29-30.

²⁴⁵ Eldem, *Osmanlı Bankası Tarihi*, 33.

²⁴⁶ Eldem, *Osmanlı Bankası Tarihi*, 36-38.

meantime, Sleigh was trying to convince Glyn and Kingscote to be the members of the board without the issue of a firman. Ironically, Sleigh heard some rumors saying that, another firman, which was obtained by Trouve-Chauvel in 1853 to establish National Bank of Turkey, was to be used by its owners in order to establish another bank. Having learned that the firman was transferred by Trouve-Chauvel to Hankey, owner of Bank Hankey, Sleigh offered to buy it off at £7.000 and invited Hankey to his project.²⁴⁷

On 8 February 1856, a meeting was held with would-be members of board and the name of the bank was altered to ‘The Ottoman Bank’.²⁴⁸ Three days later, in another meeting headed by A. H. Layard, the then Member of Parliament, things began to turn against the initiators of the project. Believing that there would be no need for a firman, new attendees did not include Zohrab and even Pasquali to the list of members of board. Sleigh, not wanting to betray his friends, asked to have his name removed from the list, too. The capital of the bank would be £500.000 consisting of 25.000 shares.²⁴⁹

By the mid-February the public offer was met by oversubscription. On 21st of February, the board decided to charge Charles Ede and his son Edward Francis instead of Zohrab, as representatives of the bank in İstanbul.²⁵⁰ By the end of February, learning that Ali Pasha, Musurus Pasha, then Ottoman ambassador to London, and Lord Clarendon were in Paris for peace negotiations, the board decided to send Layard and Glyn to meet them. Unaware of the events in London,

²⁴⁷ Eldem, *Osmanlı Bankası Tarihi*, 39-41.

²⁴⁸ Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 74-75.

²⁴⁹ Eldem, *Osmanlı Bankası Tarihi*, 42.

²⁵⁰ Eldem, *Osmanlı Bankası Tarihi*, 44-46.

Zohrab in his letter to Sleigh disapproved the involvement of Trouve-Chauvel in the project, because according to him only hearing his name might make the Porte to demur. After a few days, Zohrab was confused learning that he and his friends were not among the members of the administrative board. Shocking news for Zohrab came a few days later from Fuad Pasha, who told him that another British bank established in London asked for the support of the Porte.²⁵¹

By March, in his letter to Sleigh, Zohrab wrote that he was told that there were others negotiating the same issue, which led to some confusion in İstanbul.²⁵² In fact, these negotiations were supported by Stratford Canning following Lord Clarendon's instructions. Fuad Pasha, responded to Canning by mentioning that the firman was almost ready to be given to Zohrab as a result of discussions for months. Fuad Pasha also suggested that, it would be better for them not to make any confusion about exactly the same issue.²⁵³

In such an atmosphere, Zohrab wrote to Sleigh at the end of March 1856 that he secured a firman written to its name. In fact, he was just informed about the then state of play. On 13th of April, he learned that Stratford Canning was trying to prevent the firman from being issued to his name.²⁵⁴ There was nothing to do for Zohrab anymore after the Ottoman Bank opened its doors to the public on 13 June 1856.²⁵⁵

As can be seen, there were two parallel negotiations going on for the same bank in İstanbul; however, these were not the only ones. In the fertile environment

²⁵¹ Eldem, *Osmanlı Bankası Tarihi*, 46.

²⁵² Eldem, *Osmanlı Bankası Tarihi*, 48.

²⁵³ Eldem, *Osmanlı Bankası Tarihi*, 49.

²⁵⁴ Eldem, *Osmanlı Bankası Tarihi*, 50.

²⁵⁵ Eldem, *Osmanlı Bankası Tarihi*, 52. Active Araştırma Merkezi, "Ottoman Bank'ın Kuruluşu," 5.

of a probable peace, many banking schemes were being presented to the Porte. Although the Ottoman Bank has been founded successfully, it was neither a state nor a national bank and the competition with others was still ongoing.

4.1.2. Other Attempts for Banking

In January 1856, Alphonse, son of Baron James de Rothschild, came to İstanbul to secure a firman. Right after the promulgation of the *Islahat Fermanı*, on 22nd of February, the Paris-based Credit Mobilier of the Pereire brothers, archrival of the Rothschilds, signed a protocol aiming at the foundation of a Banque Générale Ottomane, according to which the capital would be 55 million francs and the bank would play a role in development of the industry. In addition to the French capital, Baring Brothers from London and Jacques Alleon from Galata would also contribute to the bank.²⁵⁶

There was another group formed by a French banker Durand including some of the Galata Bankers such as, Camondo and Baltazzi.²⁵⁷ Apart from the Ottoman Bank, Trouve-Chauvel presented another project with Couturier, on March. Another British group, “grandiose in its ambitions and more prestigious in composition”, was headed by the Member of Parliament Sir Joseph Paxton, who was the railway tycoon and the constructor of Crystal Palace²⁵⁸ of 1851 London Exhibition. Local representative of the group was to be Atkinson Wilkin.²⁵⁹

²⁵⁶ Autheman, *The Imperial Ottoman Bank*, 23. Clay, *Gold for the Sultan*, 28.

²⁵⁷ Clay, *Gold for the Sultan*, 32.

²⁵⁸ In the London Exposition of 1851, Joseph Paxton's Crystal Palace was decorated according to principles drawn from Islamic architecture, which might demonstrate the roots of his interest in the

The number of banking schemes proposed to the Porte reached to 14, according to The Times of 5th of April.²⁶⁰ However, the abundance of projects due to optimistic environment of peace should be handled according to the new political conditions. Any project promoted by the Porte would mean holding a position of one of its allies. Moreover, preference for Rothschilds, with their state-like powers, would culminate the same results for the Porte as if it preferred an entirely British or French bank.²⁶¹

In the meantime Pereires, revised their proposal of 22nd of February, according to which the initial capital was to be 60 million francs (£2.400.000) and Henri Place and Frederic Grieninger were to be the negotiators.²⁶² However, when they were about to go to İstanbul, Place went bankrupt. It was Alphonse de Rothschild who heard the news first in İstanbul, and immediately after, the Ottomans. Credit Mobilier lost its prestige both in İstanbul and Paris, and due to this fiasco the French government began to support the Rothschilds.²⁶³

The Ottoman Bank started its affairs in the Ottoman Empire with limited short-term objectives, which were only operations of an ordinary commercial bank.²⁶⁴ In fact, it was the strategy of the Bank, not to compete with others in establishing a national bank but to hold a ground and develop a reputation in the

Orient. Zeynep Çelik, *Displaying the Orient: Architecture of Islam at Nineteenth-Century World's Fairs* (Berkeley: University of California Press, 1992), 165.

²⁵⁹ Clay, *Gold for the Sultan*, 29. Zohrab, in his letter written on 10th of March, mentioned that Wilkin, most probably, was supported in his attempt by M.M., with whom he had close relations. According to Eldem, mentioned M.M. might have referred to Costaki Musurus Pasha, the then Ottoman Ambassador to London. Eldem, *Osmanlı Bankası Tarihi*, 49.

²⁶⁰ Eldem, *Osmanlı Bankası Tarihi*, 40.

²⁶¹ Clay, *Gold for the Sultan*, 30.

²⁶² Clay, *Gold for the Sultan*, 32.

²⁶³ Autheman, *The Imperial Ottoman Bank*, 25. Clay, *Gold for the Sultan*, 33.

²⁶⁴ "The Ottoman Bank was to operate as a deposit, circulation, discount and commercial bank and to perform all such operations as may guarantee and facilitate commercial transactions. Autheman, *The Imperial Ottoman Bank*, 28.

Ottoman Empire, which would provide advantages for them over its competitors in future.²⁶⁵ Aware of the Ottoman Bank's relative advantages, Credit Mobilier proposed to merge with the bank and establish a new one, in which the British group would be represented by one-third of the capital. After the rejection of this proposal, another proposal came to Ottoman Bank from the Paris-based Donon Aubry and Gautier, aiming to dominate the long-term lending to the Porte. This time, the Ottoman Bank agreed to form a group only dedicated to raising a loan.²⁶⁶

By April 1856, the group dispatched a British and a French to İstanbul to present their proposals. "They were instructed to draw the attention of the Porte to the particular significance of their proposals for an object which [they] are led to believe his Imperial Majesty has greatly at heart, namely, the development, by the construction of necessary public works, of those great natural resources of the Turkish dominions which, if properly managed, cannot fail to place the Ottoman Empire in the ranks of the first commercial countries in the world".²⁶⁷ The amount of the loan was to be £20 million, £5.3 million of which was to be used for withdrawal of *kaime* and debased coins whereas the rest, about £15 million, was to be allocated to public works, such as railways.²⁶⁸ Mihran Düz and Zarifi would take part in the operation on behalf of the Ottoman side. In order to smooth future negotiations, the administrative board authorized the Ottoman Bank for an advance of £150.000 to the Porte, in July.²⁶⁹

²⁶⁵ Clay, *Gold for the Sultan*, 34-35.

²⁶⁶ Clay, *Gold for the Sultan*, 36.

²⁶⁷ Clay, *Gold for the Sultan*, 36.

²⁶⁸ Clay, *Gold for the Sultan*, 37.

²⁶⁹ Eldem, *Osmanlı Bankası Tarihi*, 59.

Although the group included some French bankers, the French government considered it as an entire English initiative and tried to convince the Porte that the approval of the proposal would give England a substantial political and economic leverage in İstanbul. Therefore, the bureaucrats wanted the group to include some other French elements, if possible the Rothschilds.²⁷⁰ There was no improvement to this effect until July; therefore, the envisaged loan could not be realized.²⁷¹ In the end, the Porte, which must have been encouraged by a proposal of a foreign loan, decided to merge the two issues; i.e. giving bank concession to a group that would raise a loan.²⁷²

4.2. Second Phase in Banking Concessions

4.2.1. The National Bank of Turkey

This idea of the Porte to give the bank concession in return of a loan, faced reactions in Europe. According to the European press, the attempt was unethical since the Porte have been negotiating with the Ottoman Bank for a long time. Such an attempt would demonstrate the untrustworthiness of the Ottoman Empire. Despite all these reactions, on 18th of August, the Porte announced the terms of concession for a national bank, named the Imperial Ottoman Bank. It was mentioned in the announcement that the capital of the bank was to be £3 million

²⁷⁰ Clay, *Gold for the Sultan*, 37.

²⁷¹ Eldem, *Osmanlı Bankası Tarihi*, 59.

²⁷² Clay, *Gold for the Sultan*, 38.

and the bank might issue banknotes up to this amount. The bank should raise a loan, which was to be used for withdrawal of *kaime* and debased coins, amounted to £5 million at 5% with an issue price 90.²⁷³

The announcement was published in The Times on 27th of August with a formal denial to Trouve-Chauvel who have been claiming that he had a firman that gave him right to establish a National Bank. In the comments of The Times, the project was criticized for being too perfect and elaborate. According to The Times, it should be better to start with a modest project and improve gradually for the Ottomans, who had almost nothing in this sense. Besides, such an attempt could not be considered in line with the rules of competition. In a real competition, the government was supposed to choose the best offer, not to impose its own. The comment ended with an anticipation that the Porte might not find any group that would accept the terms offered.²⁷⁴

The groups were supposed to make their proposals until the 11 October 1856; however, the Porte increased the amount of the loan from £5 million to £8 million, with a last minute change.²⁷⁵ There were four groups preparing for the concession, which were “the Ottoman Bank and its allies, the Rothschilds, the Paxton-Wilkin group, and a Galata consortium represented by Theodore Baltazzi”.²⁷⁶

On 27 December 1856, the Grand Vizier made a formal offer to the representatives of the contenders. It was only Atkinson Wilkin, representative of

²⁷³ Eldem, *Osmanlı Bankası Tarihi*, 60.

²⁷⁴ Active Araştırma Merkezi, “Imperial Ottoman Bank Projesi,” *Active Bankacılık ve Finans Dergisi* 19, (2001): 1-2. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

²⁷⁵ Eldem, *Osmanlı Bankası Tarihi*, 63.

²⁷⁶ Clay, *Gold for the Sultan*, 38.

the Paxton-Wilkin group, who accepted the terms of the Porte. The other three, presumably due to an agreement among themselves, rejected it. Despite its financial weaknesses compared to other groups, the members of the Paxton-Wilkin group were really impressive. The group members were, the aforementioned Sir Joseph Paxton as a chairman, who secured a concession on 23 September 1856 to construct a railway between İzmir and Aydın, Samuel Laing²⁷⁷, Matthew Uzielli, Thomas Brassey²⁷⁸, the constructor of Balaklava railway in the Crimean War, the ironmaster Abraham Darby and J.A. Chowne, director of the Telegraph Company.²⁷⁹

Immediately the day after, Falconnet, the new local manager of the Ottoman Bank, requested from Stratford Canning to support them in blocking the Paxton-Wilkin group.²⁸⁰ Despite all the attempts of the rival groups to defeat the scheme, the Paxton-Wilkin group was announced as the winner in January 1857.²⁸¹ The concession was approved on 5 March 1857, according to which an Imperial National Bank of Turkey was to be founded with an initial capital of £3.3 million.²⁸² Besides, a loan, which would be devoted to withdrawal of *kaime* and

²⁷⁷ "Samuel Laing was a British railway administrator. In 1842, he was made secretary to the railway department, and retained this post until 1847. He had by then become an authority on railways, and had been a member of the Dalhousie Railway Commission (...) In 1848 he was appointed chairman and managing director of the London, Brighton and South Coast Railway, and his business acumen showed itself in the largely increased prosperity of the line. He also became chairman (1852) of the Crystal Palace Company, but retired from both posts in 1855." Wikipedia contributors, "Samuel Laing (science writer)," Wikipedia, The Free Encyclopedia, http://en.wikipedia.org/w/index.php?title=Samuel_Laing_%28science_writer%29&oldid=139956062 (accessed on 12 December 2007)

²⁷⁸ Thomas Brassey was a great railway builder of the century. He had built one out of three miles in Britain by 1847 and 3 out of every 4 miles in France, by 1850. "Thomas Brassey - the great Railway Builder of the 19th Century", http://www.penkridge.org.uk/brassey.htm#The_life (accessed on 12 December 2007)

²⁷⁹ Clay, *Gold for the Sultan*, 39.

²⁸⁰ Clay, *Gold for the Sultan*, 40.

²⁸¹ Eldem, *Osmanlı Bankası Tarihi*, 63.

²⁸² BOA, İ.M.M., 305 (Article 3), in Active Araştırma Merkezi, "Imperial Ottoman Bank Projesi," 4.

debased coins, amounted to £6.6 million would be raised by the Bank at an interest of 5% plus 1% (would be paid five years later), with an issue price 90, if possible.²⁸³ If another loan would be needed for public works, particularly railway constructions, the Porte would appeal to the Bank.²⁸⁴

Unfortunately, due to heavy winter of 1856-57 in Europe and the extension of the financial crisis that began in United States in the previous autumn to Europe, Bank of England raised the discount rate to 7%²⁸⁵, which made it impractical to raise a loan at 6% for the Paxton-Wilkin group. “Conditions had changed, and the long delays of the Ottoman government in getting down to serious negotiations in the previous year meant that the opportunity for striking a favorable deal for the establishment of the bank, which the optimism of early 1856 had offered, had been wasted.”²⁸⁶ Therefore, the project was abandoned in May 1857. Most probably for this reason, in May 1857, Joseph Paxton transferred his railway concession, which was obtained in 23 September 1856 to construct a railway between İzmir and Aydın, to another English group.²⁸⁷

Immediately after, Reşit Pasha turned to other groups in order to continue the negotiations. However, the Rothschilds were not willing to get involved in the business anymore. This time, it was the Galata bankers that appeared on the scene including Baltazzi, Psycharis, Tubini and others.²⁸⁸ Presumably by June, they made their proposals to the Porte. According to the scheme, a National Bank of

²⁸³ BOA, İ.MM., 305 (Article 25-26), in Active Araştırma Merkezi, “Imperial Ottoman Bank Projesi,” 7.

²⁸⁴ BOA, İ.MM., 305 (Article 33), in Active Araştırma Merkezi, “Imperial Ottoman Bank Projesi,” 9.

²⁸⁵ Clay, *Gold for the Sultan*, 41.

²⁸⁶ Clay, *Gold for the Sultan*, 41.

²⁸⁷ Akyıldız, *Osmanlı Dönemi Tahvil*, 96.

²⁸⁸ Clay, *Gold for the Sultan*, 42.

Turkey was to be founded with a capital of £4.620.000. The bank, annually, would withdraw depreciated coinage and *kaime* amounted at 75 million *kuruş* (£576.000) each.²⁸⁹ In fact, it was unrealistic to collect such a capital without European participation; hence, the scheme collapsed in a week after the subscription list was opened on 1st of July.²⁹⁰

4.2.2. The Bank of Turkey

This time the concession was given to a banker in Galata, Daniel Revelaky, who was related to the failed Imperial National Bank of Turkey scheme. In fact, this time he did not represent any group but tried to find supporters. “His main British allies were Atkinson Wilkin and his brother Robert²⁹¹, while French finance was represented by the Banque Générale Suisse.”²⁹² On 22 March 1858, the Sultan approved the evaluation report prepared by the ministers. Finally, the concession was given to Revelaky on 19 May 1858, to establish a Bank of Turkey with a capital of £1 million. Atkinson Wilkin also took part in the new bank with a minor role.²⁹³ Needless to say, a perspective plan for the foundation of Bank of Turkey meant a heavy blow for the founders of the Ottoman Bank.²⁹⁴

²⁸⁹ Active Araştırma Merkezi, “Yeni Bir Banka Projesi,” *Active Bankacılık ve Finans Dergisi* 23, (2002): 2. (available on <http://www.activegroup.biz/active/active.html>) (accessed on 2 December 2007)

²⁹⁰ Clay, *Gold for the Sultan*, 42.

²⁹¹ Most probably he was the same ‘Robert (Wilkin)’ who appealed to the Porte on 11 July 1856 for the concession of İzmir and Aydın railway on behalf of Joseph Paxton and friends. Akyıldız, *Osmanlı Dönemi Tahvil*, 50.

²⁹² Clay, *Gold for the Sultan*, 43.

²⁹³ Eldem, *Osmanlı Bankası Tarihi*, 65-66.

²⁹⁴ Eldem, *Osmanlı Bankası Tarihi*, 67.

In the meantime, the negotiations for a foreign loan were continuing. The cost of the Crimean War to the Ottomans has reached at £11.200.000 by 27 September 1855, according to the enumeration of accounts by the commissions of control.²⁹⁵ In addition to this, the total *kaimes* issued after the Crimean War have reached 6.190.000 liras, whose value have been depreciated up to 30% of their par value.²⁹⁶ Therefore, in order to withdraw the *kaimes*, a new loan contract was arranged with Dent Palmer & Co. by the help of the Ottoman Bank, in September 1858.²⁹⁷ The loan was amounted at £5 million, £2 million of which was to be optional. The first £3 million of the loan was realized with an issue price of 85% in 1858, whereas the rest £2 million with an issue price of 62.5% in the following year.²⁹⁸

Although, the issue price of the loan was low since there was no guarantee of the British and French governments as it was valid for 1854 and 1855 loans²⁹⁹, it was still deemed as a success of the Ottoman Bank. Therefore, “the Ottoman Bank, to win, at the very least, a half share in the concession” met with the bureaucrats and told them they deserved to be included in the concession since “the success of the government loan [...] had been entirely due to itself”.³⁰⁰

Presumably due to this attempt, Ali Pasha requested from the Bank of Turkey concessionaires to include the Ottoman Bank in the project on equal basis.³⁰¹ However, the negotiations did not continue between the Bank of Turkey

²⁹⁵ Active Araştırma Merkezi, “Türkiye’de Bankacılığın Tarihsel Gelişimi,” 8.

²⁹⁶ Kömürçan, *Türkiye İmparatorluk Devri*, 16.

²⁹⁷ Clay, *Gold for the Sultan*, 45.

²⁹⁸ Kömürçan, *Türkiye İmparatorluk Devri*, 17.

²⁹⁹ Eldem, “Ottoman Financial Integration,” 435.

³⁰⁰ Clay, *Gold for the Sultan*, 44-45.

³⁰¹ Clay, *Gold for the Sultan*, 45. Eldem, *Osmanlı Bankası Tarihi*, 69.

and the Ottoman Bank since the terms seemed unacceptable to both parties.³⁰² In March 1859, the concessionaires of the Bank of Turkey asked the Porte to declare the names of those that would be appointed to the administrative board on behalf of the Ottoman side. They proposed Pavlaki Musurus, brother of Costaki Musurus Pasha, for the vice-presidency.³⁰³

Nevertheless, the Porte was not willing to proceed. In fact, the Porte added two new provisions to the original concession, which were that, (1) half of the capital was to be provided by Ottoman subjects and that (2) the Bank of Turkey was to be founded only after the withdrawal of all *kaimes* was complete.³⁰⁴ However, despite the operation thanks to the loan, there were still some *kaimes* amounting to 70 million *kuruş*, remained in circulation, which meant that the opening of the Bank of Turkey would have to be deferred.³⁰⁵ Moreover, the Banque Générale Suisse went bankrupt in April 1859, which left the Bank of Turkey as an affair of Galata bankers supported by some English financiers.³⁰⁶

Despite all the inconveniences, the shares of the Bank of Turkey opened to public subscription in February 1860. However, the 'Greek' majority in the affair aroused suspicions among the subscribers, since they were famous as speculators.³⁰⁷ The resignations of all members of the administrative board at İstanbul in May made everything worse for the Bank.³⁰⁸

³⁰² Clay, *Gold for the Sultan*, 45.

³⁰³ As can be remembered, Zohrab claimed that A. Wilkin was supported in his attempt by M.M., who might have referred to Costaki Musurus Pasha, then Ottoman ambassador to London. See page 65. Presumably, in return for his brother's support, Wilkin proposed Pavlaki Musurus for the vice-presidency.

³⁰⁴ Eldem, *Osmanlı Bankası Tarihi*, 70.

³⁰⁵ Clay, *Gold for the Sultan*, 46.

³⁰⁶ Clay, *Gold for the Sultan*, 45. Eldem, *Osmanlı Bankası Tarihi*, 70.

³⁰⁷ Eldem, *Osmanlı Bankası Tarihi*, 71.

³⁰⁸ Eldem, *Osmanlı Bankası Tarihi*, 72.

After four years of endeavors, a national bank could not have been founded, yet. Moreover, the financial situation had been progressively deteriorating. In the lack of a national bank, there were two options for the Porte to overcome its financial embarrassments, foreign loans and short-term credits from Galata bankers. However, the financial instability of the Ottoman Empire was increasing due to high interest rates of short-term credits. Although the Galata bankers benefited from those higher interest rates, they were well aware of the consequences of a possible collapse of the Ottoman finances. Thus, some Galata bankers, including Tubini, Corpi, Baltazzi, Camondo and Zarifi, established the Union Financière (*İttihad-ı Mali*) in April 1860 that would operate similar to the bankrupt Banque de Constantinople.³⁰⁹

By the end of 1857, the total debt of the Ottoman Empire reached to £28 million. By July 1860, it was £35 million at least, £18.5 million of which was the floating debt³¹⁰. In fact, the main problem was the floating debt, “not the size of the debt as a whole [...] [because] [n]ot only had it been growing rapidly, but it was costing the government a great deal”.³¹¹ In order to settle the floating debt, the Porte made attempts for a foreign loan in London, but to no avail. Then the Porte turned to Paris but the Rothschilds and the Pereires refused support.³¹² There was in fact, a proposal by Bischoffsheim & Goldschmidt for a loan of 250

³⁰⁹ Eldem, *Osmanlı Bankası Tarihi*, 72-73.

³¹⁰ Long-term borrowings of governments are named as *regular debt*. Besides, governments can also make short-term borrowings at home via treasury bonds, most of which are to be paid at the end of year. This type of loans is named as *floating debt*. The total amount of *floating debt* and regular debt constitutes the *general public debt*. Kömürçan, *Türkiye İmparatorluk Devri Dış Borçlar Tarihçesi*, 11-12.

³¹¹ Clay, *Gold for the Sultan*, 49-50.

³¹² Eldem, *Osmanlı Bankası Tarihi*, 74-75.

million francs, but the French government did not allow quotation in Paris.³¹³ In such a hopeless plight, Jules Isaac Mirés, who was the manager of Caisse Générale des Chemins de Fer (General Railway Banking Company), offered a loan of 400 million francs to the envoys of the Porte³¹⁴ and “had put together a vast plan for setting up banks and building railways in the country”³¹⁵.

The loan would have a 6% interest rate with an issue price 53.75, which meant a 14.6% real interest. After the commissions and other expenditures, the sum that was to be received by the Porte was only 164 million francs. This amount would still be sufficient to settle the floating debt to Galata and the rest was to be used for withdrawal of *kaimes*, which was the condition for the commencement of the Bank of Turkey.³¹⁶ Therefore, Mirés turned to the concessionaires of the Bank of Turkey for the arrangement of the London subscription of the loan. In the preparation period, Mirés advertised the loan by using his newspapers, *Le Constitutionnel* and *La Presse*. He also did not hesitate to use the name of the Marquis de Plœuc, who was auditing Ottoman finance on behalf of the French government, to assure would-be subscribers. The subscription started on 11 December 1860 from the issue price 62.5, which was higher than the agreed rate of 53.75. Besides, on the subscription date, the French government announced that it had no relation to the involvement of the Marquis de Plœuc in the loan. This announcement was understood, as the government did not affirm the loan. In the end, the subscription resulted in to failure.³¹⁷ The

³¹³ Clay, *Gold for the Sultan*, 54.

³¹⁴ Eldem, *Osmanlı Bankası Tarihi*, 75.

³¹⁵ Autheman, *The Imperial Ottoman Bank*, 34

³¹⁶ Clay, *Gold for the Sultan*, 54-55.

³¹⁷ Eldem, *Osmanlı Bankası Tarihi*, 77.

Rothschilds and other members of *haute banque* also played an active role in this failure by rumoring that the government would not support the loan.³¹⁸

After the failure of the loan, Mirés was arrested on 18 February 1861 due to the complaints of his business rivals. The repercussions of the arrest were devastating. Charles Ede, the then representative of the Ottoman Bank in İstanbul in 1856, and Rodocanachi, a leading figure among the Bank of Turkey group, went bankrupt in London. Baltazzi and Psycharis closed their doors, too.³¹⁹ “The bubble burst, causing a dramatic destabilization of the Ottoman market, with exchanges soaring to almost double their previous level.”³²⁰ In order to stop the panic, the Porte requested the support of the English and French governments. As a result, England sent Hobart and Foster, members of Board of Trade, and France sent Doyan, the vice-president of Banque de France to İstanbul.³²¹

Under these circumstances, on 15 April 1861, the Porte decided to mint new *kaimes* amounted to 2.5 million *kese* (1.25 billion *kuruş*) in order to overcome the cost of the failed loan.³²² In fact, this would mean the end for the Bank of Turkey, since its commencement was subject to withdrawal of all *kaimes*. Not surprisingly, the Bank of Turkey and the Union Financière closed business before 1862.³²³

³¹⁸ Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 73.

³¹⁹ Clay, *Gold for the Sultan*, 56, Eldem, *Osmanlı Bankası Tarihi*, 78.

³²⁰ Eldem, “Ottoman Financial Integration,” 436.

³²¹ Eldem, *Osmanlı Bankası Tarihi*, 79.

³²² Akyıldız, *Para Pul Oldu*, 108. Eldem gives the amount as 2,7 million *kese*. Eldem, *Osmanlı Bankası Tarihi*, 102.

³²³ Eldem, *Osmanlı Bankası Tarihi*, 81. Akyıldız, *Para Pul Oldu*, 107.

CHAPTER V:

A TARDY SUCCESS FOR THE OTTOMAN EMPIRE

5.1. Foundation of a ‘National’ Bank

5.1.1. The Imperial Ottoman Bank

After Abdülmecid’s death in June 1861, his brother Abdülaziz became Sultan and appointed Fuad Pasha as the Grand Vizier. In this period, Hobert and Foster drew up a “positive and encouraging report” on Ottoman finances and Fuad Pasha prepared a formal budget.³²⁴ As a result of these, Western markets were convinced about the future of the Ottoman economy. Under this favorable context, it could be possible to arrange a loan, with a nominal value of £8 million issuable at 68 and bearing 6% interest, with Deveaux and Co. of London. Again, the Ottoman Bank played an eminent role in the placement.³²⁵ The public offer

³²⁴ Eldem, “Ottoman Financial Integration,” 436.

³²⁵ Eldem, “Ottoman Financial Integration,” 436; Autheman, *The Imperial Ottoman Bank*, 39.

was resulted with four times oversubscription. Thanks to the loan, at last, withdrawal of all *kaimes* has been achieved by October 1862.³²⁶

In return for the role it had played in the success of the loan, the chances for the Ottoman Bank being the future state bank of the Ottoman Empire became obvious. Although the bank tried hard to secure the concession for state bank, the Porte still had reservations on favoring only the English side.³²⁷ Therefore, the Bank got in touch with the French Credit Mobilier, which had been its rival in 1856, in order to establish a joint bank in Constantinople named the Imperial Ottoman Bank (the IOB). After the negotiations, the Porte approved this association and the Imperial Ottoman Bank officially opened on 4 February 1863.³²⁸ In the end, after tiring 12 years, the Ottoman Empire managed to establish a state bank that would operate as a central bank.

The contract of concession was composed of 22 articles which were similar to those of the Bank of Turkey's.³²⁹ According to the articles of the concession, the bank was to be the state bank (Article 1) and the official privilege of issuing banknotes was to be valid for 30 years (Article 5). The banknotes would be repayable at their place of issue (Article 9) under the condition that the government would not issue any paper money during the lifetime of the concession (Article 2). The capital of the bank was to be £2.7 million and half

³²⁶ Autheman, *The Imperial Ottoman Bank*, 40.

³²⁷ The Marquis de Plœuc, then French financial advisor to the Porte, also claimed the inappropriateness of such a unilateral act avoiding the French. Consequently, Fuad Pasha insisted that the French side should also be represented in the combination of the bank, if possible on equal terms. Autheman, *The Imperial Ottoman Bank*, 40.

³²⁸ Kaya Bayraktar, "Osmanlı Bankası'nın Kuruluşu," *C.Ü. İktisadi ve İdari Bilimler Dergisi*, Vol: 3, No:2 (2002): 81. Bayraktar refers to BOA Name-i Hümayun Defteri, 12, 1279/1863 for this date; whereas, Autheman, *The Imperial Ottoman Bank*, gives the date as 5 March 1863 depending on French archives. Autheman, *The Imperial Ottoman Bank*, 45.

³²⁹ Eldem, *Osmanlı Bankası Tarihi*, 83.

paid-in (Article 4). The bank was to be subject to the Ottoman Law (Article 2). The Bank would be given responsibility for paying the Empire's domestic debt and transferring funds to pay its foreign debts, and would receive a commission of 1% for these operations (Article 14). The Bank would be responsible for all treasury operations in İstanbul (Article 13) and the government would facilitate the land and buildings where the bank would operate, for free (Article 17). Finally, the Bank was to be exempt from all taxes (Article 18).³³⁰

The Bank also would be the government's financial agent for both domestic and foreign purposes³³¹, and would have right to perform all banking operations and all these financial clauses were to be subject to review after five years. The organization and management of the bank was under the monopoly of Paris and London committees of the bank. The London Committee was chaired by Sir William Clay whereas the Paris Committee by Charles Mallet. As agreed with the Porte, the Marquis de Plœuc was appointed general manager.³³²

Clay claims that the Ottoman echelons aimed four main goals to establish such a bank. The first was to demolish the monopoly of Galata bankers over short-term borrowings with high interest rates. The second was to facilitate the suitable environment among the European financial centers to secure long-term borrowing in healthy conditions. The third was to provide a successful structure to

³³⁰ Bayraktar, "Osmanlı Bankası'nın Kuruluşu," 80.

³³¹ This point later became a source of dispute between the bank and the Ottoman government. The bank interpreted this it had a monopoly over issuing loans. The government refused to admit this. Autheman, *The Imperial Ottoman Bank*, 45.

³³² Autheman, *The Imperial Ottoman Bank*, 46

transfer tax revenues to the center. Finally, they also planned to benefit from the bank in order to reform the Ottoman fiscal structure and administration.³³³

However, the expectations of Western states and business centers were totally different from those of the Bank. For them, the unique aim of the bank was to secure and regulate the payment of foreign debt and deficit of the Ottoman Empire. Another aim of the bank was to regulate the foreign exchange regime.³³⁴

5.1.2. Repercussions of the IOB

After the foundation of the IOB, Galata bankers lost their almost monopolistic position in the Ottoman finance. This led to the hostility of Galata bankers. Aware of possible consequences of this hostility, the IOB sought for opportunities to cooperate with local bankers. Therefore, despite the non-involvement of Galata bankers in the capital of the IOB, George Zarifi took part on the board of the IOB. Besides, the IOB provided the Galata bankers several short-term credits.³³⁵

On 4 May 1864, IOB established the Société Générale de l'Empire Ottoman in association with A. Baltazzi, J. Camondo & Co., Z. Stephanovitch & Co., A. Rallis, C. Zographos, Boghos Mısıroğlu, Zafiropoulos & Zarifi, and Oppenheim Alberti & Co. The capital of the bank was to be £2 million, half paid in.³³⁶ George Zarifi was appointed as the president of the bank. Thanks to this

³³³ Clay, *Gold for the Sultan*, 74-76; Bayraktar, "Osmanlı Bankası'nın Kuruluşu," 83.

³³⁴ Bayraktar, "Osmanlı Bankası'nın Kuruluşu," 83-84.

³³⁵ Minoglou "Ethnic Minority Groups," 130-31.

³³⁶ Autheman, *The Imperial Ottoman Bank*, 66.

association, the IOB became to be able to provide short-term advances to the Porte, which was not permitted by its statutes.³³⁷

A few months after the foundation of Société Générale, Lewis Farley, who was supported by some English capitalists, established the Ottoman Financial Association with a capital of £1 million, providing support of S. Mavrocordatos, an important Galata banker. However, the bank was liquidated in a year due to ruinous competition in İstanbul.³³⁸

When the Ottoman bonds were accepted in European stock markets, the Galata bankers sought for benefits of this situation rather than complaining. Taking the advantage of the conversion of Ottoman bonds in European markets, Galata bankers lowered their risk in finding credit. In fact, decreased risk naturally meant lower profits. Galata bankers could not make profit in the rates of 20-24% anymore, due to the competition with the European contractors and the banks established after 1863.³³⁹

Table 3: Foreign Loans until the Establishment of the Imperial Ottoman Bank:³⁴⁰

Date	Amount (liras)	Amount Obtained by the Treasury	Issue Price (%)	Interest (%)	Real Interest (%)	Period of Redemption (year)	Annual Payment
1854	3.300.000	2.203.011	80	6	7,5	33	231.000
1855	5.500.000	5.500.000	102,625	4	3,89	42	275.000
1858	5.500.000	4.227.237	76	6	7,89	33	385.000
1860	2.240.920	1.270.000	53,75	6	11,16	36	152.900
1862	8.800.000	5.984.000	68	6	8,82	23	704.000

³³⁷ Minoglou "Ethnic Minority Groups," 131.

³³⁸ Nevertheless, after 1865 the impact of the Imperial Bank was weakened due to the increased loans by rival groups, such as Société General of Paris, the Crédit Général Ottoman and Comptoir d'Escompte. Haris Exertsoglou, "Greek Banking in Constantinople 1850-1881" (Ph.D. diss., London University, 1986), 153-4.

³³⁹ Exertsoglou, "Greek Banking in Constantinople," 140.

³⁴⁰ Bayraktar, "Osmanlı Bankası'nın Kuruluşu," 75.

Although withdrawal of all *kaimes* could be possible thanks to the 1862 loan, the floating debt still remained approximately 200 million francs. Therefore, in order to settle this debt, Ottomans got in touch with the founders of IOB. A loan of 150 million francs bearing 6% interest rate with an issue price 72 was opened to public subscription on 18 April 1863. The loan was mostly used in paying short-term debt to Galata bankers.³⁴¹ In this loan, France played a dominant role unlike the previous ones, in which Britain was the leading actor. On 15 September 1863, the Porte asked to the bank for an additional 50 million francs (£2 million).³⁴² This time the issue price was set 68.³⁴³

IOB, in early 1863, began to interest in financing the Balkan railways, from İstanbul to Edirne. Therefore, on 18 November 1863, IOB informed the Porte about “its intention to undertake [construction of this railway] and carry [it] through the completion.”³⁴⁴ However, there would be no improvements in this respect.³⁴⁵

Another company was established by some British merchants including London branches of Rallis and Zarifi, in early 1864, named Mercantile Credit Association. In this period, despite their failure in establishing INBT, Thomas Brassey and some other important railway contractors did not stand idle and took part in Imperial Financial Company. These two merged in 1864, under the name of Imperial Mercantile Credit Association (IMCA). IMCA, involving in discounting and exchange, also became “responsible for issuing the shares of the

³⁴¹ Kömürçan, *Türkiye İmparatorluk Devri*, 24. Autheman, *The Imperial Ottoman Bank*, 49.

³⁴² Autheman, *The Imperial Ottoman Bank*, 50.

³⁴³ Kömürçan, *Türkiye İmparatorluk Devri*, 24.

³⁴⁴ Autheman, *The Imperial Ottoman Bank*, 67.

³⁴⁵ According to Autheman, the hesitations of the Porte regarding the route deferred the commencement of the preliminary studies. Autheman, *The Imperial Ottoman Bank*, 67.

Varna Ruschuk Railway Company". In fact, none of these two companies constituted serious threat for IOB, regarding construction of railways. However, this was not the case for another one named the General Credit and Finance Company.³⁴⁶

The General Credit and Finance Company was founded right after IOB in May 1863 by Samuel Laing, as chairman, and Matthew Uzelli and Thomas Brassey, who were involved in failed INBT scheme of 1857.³⁴⁷

By late 1864, General Credit dispatched a former diplomat Sir Henry Drummond-Wolff to İstanbul to arrange a loan that would be used for public works, presumably for railways. In the meantime, Louis Merton, a dealer in international markets, thought of a conversion operation for Ottoman floating debt. His scheme was irresistible for the founders of General Credit since it might consolidate the position of the company in Ottoman finances. After the adoption of his scheme, Merton returned to İstanbul, and he and Drummond-Wolff presented their project to Fuad Pasha on 19 December 1864.³⁴⁸

Observing the developments, IOB proposed another conversion operation in the beginning of 1865. According to the scheme offered by the Marquis de Plœuc, the floating debt, which was in form of securities estimated around 22 million liras, would be exchanged with new ones. The financial burden of the securities, which was estimated as almost 2.4 million liras annual charge, could be decreased by extending the redemption period and decreasing the interest rate.

³⁴⁶ Clay, *Gold for the Sultan*, 107.

³⁴⁷ Clay, *Gold for the Sultan*, 108. The reader will recall that both of them were highly interested in railway construction. See page 69-70.

³⁴⁸ Clay, *Gold for the Sultan*, 108.

Besides, the holders of the securities would be free in accepting the exchange.³⁴⁹ However, the Porte refused the proposal of the IOB and proceeded on the scheme of General Credit.

Several factors might have played a part in Fuad Pasha's decision to work with General Credit. Autheman argues that the Porte did not prefer a facility for security holders to accept or reject exchange in IOB's scheme.³⁵⁰ Moreover, IOB was suspected of aiming at a monopoly over Ottoman foreign loans due to its profit-oriented structure and thus blocking potential rivals in this respect.³⁵¹ Therefore, a rival project would enable the Porte to take the advantage of competition. Also, the amount of the loan offered by IOB was only 5.45 million liras whereas General Credit proposed for 40 million liras.³⁵² It should also be kept in mind that the founders of General Credit were promising in their devotion to railway construction.

On 3rd of March, the news of agreement with General Credit spread in İstanbul. According to the agreement, different types of internal securities would be exchanged with one single security at a lower interest rate and the internal debt was to be converted to an external one. The agreement faced with the reactions of IOB, which supposed that it had a legal right for such an operation being a 'state bank'. Another opposition was made to the amount of the loan, whose dividend payments would increase the liability to abroad at £2 million. A possible delay in payments due to liquidity problem of the Porte would seriously damage the

³⁴⁹ Autheman, *The Imperial Ottoman Bank*, 50-51.

³⁵⁰ Autheman, *The Imperial Ottoman Bank*, 51.

³⁵¹ Eldem, "Ottoman Financial Integration," 438.

³⁵² Clay, *Gold for the Sultan*, 109, 114.

financial credit of the Empire, which would imperil future borrowings at reasonable rates.³⁵³

The Porte, already agreed with General Credit, now tried to include IOB in the scheme. However, it was not practicable to make substantial changes in the agreement, which was demanded by IOB, since the laws necessary for implementation of the agreement had been promulgated on 29-31 March 1865.³⁵⁴ Under these circumstances, IOB refused to participate in the operation. The amount of the loan was decided as 40 million liras bearing 5% interest with an issue price 50, 29 million of which would be used for conversion whereas 7 million would be allocated to the construction of some public works.³⁵⁵ This ‘General Debt’ was secured on the revenues of the Ottoman Empire as a whole.³⁵⁶

It was decided to issue 4 million at first; however, French government refused the loan to be quoted in French markets since IOB did not participate in the operation. In May, this amount was offered in other financial centers of Europe but the result was a complete failure. Worrying about possible results of the failure, Ali and Fuad Pashas tried hard to persuade the French government for the conversion to be admitted in French markets and due to these attempts the restriction had been lifted. As a result of this inconvenience, the issue price of the loan fell from 50 to 43.5, which disconcerted the Porte about the success of future

³⁵³ Clay, *Gold for the Sultan*, 110-12.

³⁵⁴ Clay, *Gold for the Sultan*, 117.

³⁵⁵ The rest 4 million was to be used for immediate needs and “unknown but certainly enormous” commission to the General Credit. Clay, *Gold for the Sultan*, 118.

³⁵⁶ Clay, *Gold for the Sultan*, 124.

loans.³⁵⁷ The other part of the loan amounted at 29 million liras were exchanged with securities of the internal debt as decided.³⁵⁸

Several months later, the Porte turned to IOB for a new loan, since debt coupons of 1865 loan should be paid in January 1866. The amount of the loan was to be £6 million at 6 percent interest and to be issued at 66.³⁵⁹ The loan agreement was signed on 11 December 1865 and immediately after the subscriptions was invited from the public.³⁶⁰ However, this time, public was not eager for subscription. Another difficulty for the subscription stemmed from the attempts of the General Credit side. According to Laing, the Porte, legally, could not raise a loan, which would be secured by whole revenues of the Empire since they had been already assigned to the General Debt of 1865. Such an operation might weaken the security of the revenues according to the loans of March 1865.³⁶¹ French government discounting the claim of the General Credit did not allow the loan to be issued in Paris markets, once again.³⁶² Not surprisingly, the issue of the loan was a failure.

The financial operations in 1865 were mostly directed at payments of the previous loans and financing to the budget deficits. They could not put an end to short-term borrowing and marked the ‘vicious circle of debt’ for the Ottomans. In

³⁵⁷ Clay, *Gold for the Sultan*, 119-122.

³⁵⁸ There is no information how the rest 7 million liras reached the market but it is known that they were sold at low prices. Clay, *Gold for the Sultan*, 571-572.

³⁵⁹ Autheman, *The Imperial Ottoman Bank*, 52.

³⁶⁰ Clay, *Gold for the Sultan*, 125.

³⁶¹ Clay, *Gold for the Sultan*, 126, Autheman, *The Imperial Ottoman Bank*, 52.

³⁶² Clay, *Gold for the Sultan*, 127.

this period, urgent financial needs of the Porte did not allow strict debt management.³⁶³

It should be noted that, after 1865, the impact of the IOB was weakened due to increased loans by rival groups.³⁶⁴ In this period, the increasing foreign debt of the Porte required more attention on the payment side. These payments could only be achieved by either short-term advances or by new loans. In this period, although the crucial aim of the Porte was to convert the internal debt to a foreign one with lower interest rates; in the end, the short-term advances from the Galata bankers significantly increased. For instance, in April 1866, the payments of 1865 loan could only be made by the advances of some Galata bankers. Following year, once again, the payments could be made by a new advance from the Société Générale and Imperial Ottoman Bank.³⁶⁵

In 1866, there were some other problems. The outbreak of the war between Austria and Prussia led to a financial crisis in Europe.³⁶⁶ Due to war, it could not be possible to provide short-term advances for the urgent necessities of the Porte. Because of the financial problems, Sultan Abdülaziz appointed Mehmed Ruşdi Pasha instead of Fuad Pasha to the Grand Vizierate on 5th of June.³⁶⁷ The impacts of this financial crisis were devastating both for Imperial Mercantile Credit Association, which “was responsible for issuing the shares of the Varna and Ruschuk Railway Company”³⁶⁸ and for Credit Mobilier, the Paris associate of the

³⁶³ Eldem, “Ottoman Financial Integration,” 438.

³⁶⁴ Exertsoglou, “Greek Banking in Constantinople,” 151-53.

³⁶⁵ Exertsoglou, “Greek Banking in Constantinople,” 139-42.

³⁶⁶ Autheman, *The Imperial Ottoman Bank*, 53. Kindleberger, *A Financial History of Western Europe*, 240.

³⁶⁷ Kömürçan, *Türkiye İmparatorluk Devri*, 28.

³⁶⁸ Clay, *Gold for the Sultan*, 107.

IOB.³⁶⁹ As a result of the crisis, IMCA was to be liquidated whereas Credit Mobilier was to be retired from the board of the IOB, in 1867.

Another problem for the Ottomans was the revolt in Crete in July 1866, which could only be suppressed by military efforts. Increasing financial needs did not allow for the payments of the foreign debt in July and August, and similarly July payment of internal debt was deferred. As a result of these, the financial credit of the Empire was seriously damaged.³⁷⁰ At the end of 1866, budget deficit was realized as 2 million liras mostly due to the military costs. On the other hand, the floating debt made after the conversion of 1865, reached to 5 million liras once again.³⁷¹

Following year, in 1868, in order to take the advantage of the retirement of the Cr dit Mobilier from IOB, Soci t  G n rale of Paris established Cr dit G n ral Ottoman in İstanbul in association with Galata banker Tubini. Another bank that intended to fill the place of the Cr dit Mobilier was Comptoir d'Escompte of Paris, which would raise a loan of 555.555.500 francs (£22.222.220), in December 1869.³⁷² 1869 loan, or Pinard loan as it came to be known after the president of the managing board of Comptoir d'Escompte signed the contract, was to be used for a portion of the floating debt and the installments of foreign loans.³⁷³

³⁶⁹ Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 135.

³⁷⁰ Autheman, *The Imperial Ottoman Bank*, 53.

³⁷¹ K m rcan, *T rkiye İmparatorluk Devri*, 29-30.

³⁷² Autheman, *The Imperial Ottoman Bank*, 56.

³⁷³ K m rcan, *T rkiye İmparatorluk Devri*, 32-33.

5.2. Ottoman Venture for Railways

5.2.1. Concerns for Industry

Due to its willingness to become part of the modern civilization, the Ottoman Empire attended the first international exhibition in London in 1851. After the exhibitions of Paris in 1855 and London in 1862, the Porte decided to arrange an international exhibition in İstanbul.³⁷⁴ The exhibition, which was titled as *Sergi-i Umumi-i Osmani*, was opened by Sultan Abdülaziz, in the third year of his reign in February 1863 and continued for 5 months.³⁷⁵ In this period, the businessmen, journalists, and merchants came from Europe and these were the first tourists that came to the Ottoman country, collectively.³⁷⁶

The 1863 *Sergi-i Umumi-i Osmani* borrowed its format from the Western exhibitions. However, the scope of the exposition was smaller and its goals were more directly linked to the promotion of the national industry. In this sense, it was a part of a larger project of strengthening the national industry that had been harmed severely beginning from the 1830's due to the competition with European products. The exposition served to identify the problems of Ottoman industry and solutions to them.³⁷⁷

³⁷⁴ For more information see, Önsoy, *Tanzimat Dönemi Osmanlı*, 59-67.

³⁷⁵ The date of this first exposition deserves attention since it precedes most of the larger exhibitions in Europe and America. There were only four major international exhibitions that took place before 1863, which were London exhibitions of 1851 and 1862, New York exhibition of 1853, and Paris exhibition of 1855. The Ottoman Empire had participated in all of these expositions except the one in New York. Çelik, *Displaying the Orient*, 139.

³⁷⁶ Önsoy, *Tanzimat Dönemi Osmanlı*, 92.

³⁷⁷ Çelik, *Displaying the Orient*, 140.

One of the most significant results of this exhibition was the establishment of *Islah-ı Sanayi*. The bureaucrats of the Tanzimat period aimed to increase the government revenue and searched for the ways to increase productivity in agriculture, industry, and trade. In this context, *Islah-ı Sanayi Komisyonu* played a significant role in protecting and developing of the domestic industry, in the period of transition from guilds (*lonca* and *gedik* system) to chambers of commerce and industry.³⁷⁸ The main duties of *Islah-ı Sanayi*, which became active in 1864, were to regulate customs tariff, to support and to encourage the industry by arranging exhibitions, to unify the artisans as corporates, and to open industry schools.

Islah-ı Sanayi Komisyonu made a great effort to incorporate artisans and to open industry schools. However, the failure of the corporations in the end, led to the breakdown of *Islah-ı Sanayi* in 1873. As a result, the State did not make great investments, left this area to the foreigners and only acted as regulator and supporter.³⁷⁹

After the 1863 Sergi-i Umumi-i Osmani, Sultan Abdülaziz visited the 1867 Paris exposition, which demonstrated his personal interest in such events.³⁸⁰ Considering that the Ottoman Sultans had not left their lands for any reason other than war, his important visit marked the Paris exhibition. One newspaper noted that “the Parisian population [was] divided into two very distinct classes: those

³⁷⁸ Quataert opposes to the idea that the guilds were the ‘sole barometers’ of the manufacturing and played a significant role for the domestic industry. According to him, the non-guild forms of industry were being ignored by such an argument. In fact, the guilds’ inflexible and restrictive characters made them uncompetitive with Europe. Quataert, *Ottoman Manufacturing in the*, 8.

³⁷⁹ Martal, “Osmanlı Sanayileşme Çabaları,” 284.

³⁸⁰ Zeynep Çelik, *Displaying the Orient: Architecture of Islam at Nineteenth-Century World's Fairs* (Berkeley: University of California Press, 1992), 139.

who had seen the Sultan and those who had not.” It has been also stated that the ceremony at the Palais d’Industrie, where the Sultan sat next to Emperor Napoleon III and Empress Eugénie, attracted between twenty and thirty thousand people. On a fabulous décor, which has been set up for the honor of Sultan Abdülaziz in the Palais d’Industrie, the French Emperor and Empress sat with the Sultan while an orchestra of twelve hundred musicians played.³⁸¹

A French journalist of the time stated that the Sultan played a crucial role as the leader of Muslims by his participation to the exposition where he made an attempt to break his empire’s reputation as the “sick man of Europe”. It can also be argued that Abdülaziz, pursuing a Western model for progression, wanted to be acknowledged for his institutional reforms.³⁸²

Actually, the visit of Sultan Abdülaziz to Paris Exposition provided the Sultan an opportunity to convince European powers of his commitment to modernization and desire to become a part of the European political system. In addition, his firsthand observation of the European culture helped to the consolidation of his determination for undertaking radical policies at home.³⁸³

In the meantime, after the defeat of Austria by Prussia in 1866 War, Hungary and the Austrian Empire agreed upon Austro-Hungarian Compromise (the Ausgleich) in 1867, which led to the Dual Monarchy.³⁸⁴ After the Ausgleich, the Austrian economy entered in to a boom phase (the Gründerzeit), which was

³⁸¹ Çelik, *Displaying the Orient*, 32.

³⁸² Çelik, *Displaying the Orient*, 35.

³⁸³ Çelik, *Displaying the Orient*, 36.

³⁸⁴ William Simpson and Martin Jones, *Europe 1783-1914* (London, New York: Routledge, 2000), 310.

mostly driven by railway construction.³⁸⁵ Abdülaziz visited Vienna while returning to İstanbul, under such a positive environment due to the Ausgleich.

Unlike the Ottomans' case, the banking system had already been established in Austria.³⁸⁶ Austrian National Bank was established in 1816, having the right to discount the bills of exchange and sole right to issue banknotes. Creditanstalt für Handel und Gewerbe was established in 1855 by Austrian House of Rothschild after a severe competition with Pereire brothers.³⁸⁷ Another bank deserving attention is the Anglo-Austrian Bank, which began to operate on 2 January 1864 right after the establishment of the IOB.³⁸⁸ The Anglo-Austrian Bank was initiated by George Grenfell Glyn, son of George Carr Glyn who was involved in the Ottoman Bank affair of 1856.³⁸⁹ There were also many other joint-stock banks and “[b]ehind the railways there stood the[se] financing mobilier banks that supplied the needed capital.”³⁹⁰ Thanks to its banking system, Austria could manage its vast foreign debts, amounted at 7.5 billion francs (£300 million) in 1867, and constructed 1841 miles of railways during the 1850s.³⁹¹

This railway system “would connect Pontus with the Adriatic on the one hand, and with the Northern and Eastern seas bordering the North-German fatherland on the other, and would fix the center of these major lines of transportation in or native land” as stated out by then Minister of Transport.³⁹² In

³⁸⁵ Cameron and Boyvkin, *International Banking*, 531. Cottrell, “London Financiers and Austria,” 115.

³⁸⁶ Cameron and Boyvkin, *International Banking*, 322.

³⁸⁷ David F. Good, “Financial Integration in Late Nineteenth-Century Austria,” *The Journal of Economic History* 37, no. 4 (Dec., 1977): 896.

³⁸⁸ Cottrell, “London Financiers and Austria,” 114.

³⁸⁹ Eldem, *Osmanlı Bankası Tarihi*, 38.

³⁹⁰ Cameron and Boyvkin, *International Banking*, 334.

³⁹¹ Cottrell, “London Financiers and Austria,” 107-8.

³⁹² Cameron and Boyvkin, *International Banking*, 334.

this regard, Creditanstalt made railway investments, including the Austrian Westbahn, from Vienna to Salzburg, whereas the Anglo-Austrian Bank invested in Lemberg-Czernowitz Railway and Kron-Prinz Rudolfbahn, both of which were to be built by Thomas Brassey. The Anglo-Austrian Bank also participated in the construction of Kaschau-Oderberg railway in cooperation with Langrand-Dumenceau/Hirsch Group.³⁹³

In the meantime, Russia was preparing for a new war with the Ottoman Empire and strengthening its strategic roads in South. In fact, this threat was also valid for Austria, which partly lost its hope for the Western territories after the defeat against Prussia in 1866 and instead began to interest in Balkan backyard.³⁹⁴ As it would be stated out by New York Times in 1870, “[Since Austria] possesses a long, narrow strip of territory along the Adriatic, Dalmatia, a part of the empire of Venice, [...] and behind which a territory that must be united, [...] [t]o reconstitute the Austrian Empire, it must move south and east, and must even be ready to risk its German possessions to secure this opening”.³⁹⁵ Therefore, Austria strongly supported the construction of Balkan railways, which would allow it to reach south, to Balkans and Salonika.³⁹⁶

Due to the Russian threat, construction of Balkan railways was becoming an absolute must for the Ottomans to defend their territories.³⁹⁷ Sultan Abdülaziz, being already impressed from the developments he observed in Europe, was persuaded by the Grand Vizier Fuad Pasha during his visit to Vienna, on the

³⁹³ Cottrell, “London Financiers and Austria,” 107, 115. Cameron and Boyykin, *International Banking*, 531.

³⁹⁴ Engin, *Rumeli Demiryolları*, 49.

³⁹⁵ *The New York Times*, 11 December 1870.

³⁹⁶ Engin, *Rumeli Demiryolları*, 49. Hertner, “The Balkan Railways,” 5.

³⁹⁷ Engin, *Rumeli Demiryolları*, 49.

urgency of construction of railways in Balkans. Such a railroad would help in cementing his dominions.³⁹⁸ Therefore, right after his return from Europe, on 19 August 1867, Sultan Abdülaziz stated that, concessions should be granted to the foreigners for the construction of railways in order to establish a railway network in the Ottoman Empire.³⁹⁹

5.2.2. Commencing Railway Construction

In accordance with the Sultan's order, an agreement regarding the construction of Balkan railways was signed on 31 March 1868 with Van der Elst & Cie., which was recommended by von Beust, then Austrian Minister of Foreign Affairs.⁴⁰⁰ Van der Elst & Cie. was being supported by the Belgian financier Langrand-Dumenceau⁴⁰¹ who has involved in many railway speculations and aforementioned Kaschau-Oderberg railway project.

After the approval of the charts for İstanbul-Küçükçekmece line, the construction was started from Yedikule in August 1868.⁴⁰² Construction of the line should be completed at latest on 1 March 1869 according to the agreement. However, in a short time, it was understood that the obligations would not be fulfilled by Van der Elst & Cie. Therefore, Van der Elst & Cie. transferred its concession to Langrand-Dumenceau with the condition of the approval of the Porte. Unfortunately, in late 1860s, the financial power of Langrand-Dumenceau

³⁹⁸ Hertner, "The Balkan Railways," 5-6.

³⁹⁹ Roderic Davison, *Osmanlı İmparatorluğu'nda Reform: 1856-1876* (İstanbul: Papirüs, 1997), 10; Araz, "Impacts of Political Decisions," 14.

⁴⁰⁰ Hertner, "The Balkan Railways," 6. Araz, "Impacts of Political Decisions," 14.

⁴⁰¹ Hertner, "The Balkan Railways," 6.

⁴⁰² Araz, "Impacts of Political Decisions," 15.

was diminishing and a few months later his group collapsed.⁴⁰³ When March 1869 arrived, the construction of the line was almost stopped.⁴⁰⁴

When they understood that Van der Elst & Cie. would fail in the construction, Ottomans began to deliberate on constructing railways by their own. In fact, it was not practicable to embark such an affair due to the financial difficulties and technical incapability. For the year 1869, it was foreseen that 3 million liras budget deficit and 5 million liras floating debt would be realized. Therefore, in December 1868, Davut Pasha, then Minister of Public Works, was sent to Europe in order to find an appropriate company that would complete the line. Davut Pasha first went to Vienna and then to Paris, where he met with Baron Maurice de Hirsch.⁴⁰⁵

Baron Maurice de Hirsch was a comparatively small private banker rather than a professional railway constructor. Having close relations with famous Bischoffsheim family that also involved in Ottoman financial affairs, Baron de Hirsch married Clara Bischoffsheim in 1855. Due to his “great spirit of enterprise and daring”, or his recklessness as some others referred, he was not taken as a

⁴⁰³ Cottrell, “London Financiers and Austria,” 116. Hertner, “The Balkan Railways,” 6.

⁴⁰⁴ Engin, *Rumeli Demiryolları*, 48.

⁴⁰⁵ Sena Bayraktaroğlu, “Development of Railways in the Ottoman Empire and Turkey” (Master’s Thesis, Boğaziçi University, 1995), 28. Engin, *Rumeli Demiryolları*, 50. According to Hertner, it is not clear whether Baron de Hirsch was involved in the previous attempt of Langrand-Dumenceau in taking over the concession from Van der Elst & Cie. or came to terms with the Porte by himself. Hertner, “The Balkan Railways” 7. However, the reader might recall that Baron de Hirsch was involved in Kaschau-Oderberg railway project in cooperation with Langrand-Dumenceau. Besides, Cottrell argues that, although both Kaschau-Oderberg and Ottoman railway concessions were originally granted to this group, due to the collapse of financial empire of Langrand-Dumenceau, Baron de Hirsch became able to take over both concessions owing to his close ties with the Anglo-Austrian bank. Cottrell, “London Financiers and Austria,” 115-16. Therefore, it may be argued that, although the Porte originally intended to find a financially sound company that would carry out the project, all it could find was the partner of Langrand-Dumenceau in the end.

partner to the original company of Bischoffsheim & Goldsmidt; rather he founded Banque Bischoffsheim de Hirsch with his brother-in-law, in Brussels.⁴⁰⁶

In fact, Baron de Hirsch really was too daring for undertaking such a commitment since he was having financial troubles at the time.⁴⁰⁷ Still, he achieved to sign an agreement with Davut Pasha on 17 April 1869, five days after the cancellation of the concession given to Van der Elst & Cie.⁴⁰⁸ According to the agreement, a railway network amounted at 2000 km. with a cost 200.000 francs (£8.000) per km. and a kilometric guarantee⁴⁰⁹ of 14.000 francs was to be constructed between İstanbul and Austrian border via Edirne – Plovdiv – Sofia – Nish – Pristina – Sarajevo and Sisak.⁴¹⁰ Again on the same day, both Davut Pasha and Baron de Hirsch signed another agreement with Paulin Talabot, who was acting as the representative of South Austrian Railways (Südbahn) owned by the Austrian House of Rothschild, regarding the operation of the network covering 99 years period.⁴¹¹

⁴⁰⁶ Hertner, “The Balkan Railways,” 6.

⁴⁰⁷ Engin, *Rumeli Demiryolları*, 50.

⁴⁰⁸ Engin, *Rumeli Demiryolları*, 50. Bayraktaroğlu, “Development of Railways,” 28. Hertner, wrongly gives the date of cancellation of the concession as the date of agreement made. Hertner, “The Balkan Railways,” 7.

⁴⁰⁹ This was a guarantee given to the contractor. If the determined amount could not be accrued from the operation, then the difference was paid by the government. For example, a guarantee amounting 15.000 liras per km. is given by the government to the contractor and the operating revenues are realized as 10.000 liras, then government should pay 5.000 liras difference to the contractor. The contractor’s profit from the operation, after deducting, say 80% operating costs, is realized as 2.000 liras. Adding this to the money paid by the government will reach at 7.000 liras. However, if the contractor improves his business and can get 12.000 liras revenue, then the amount to be paid by the government decreases to 3.000 liras. The profit from the operation is 2.400 liras now. This time, contractor can yield only 5.400 liras revenues. In brief, this exercise is to government’s disadvantage, however, in order to assure the entrepreneurs Ottomans applied to this exercise many times. Engin, *Rumeli Demiryolları*, 38.

⁴¹⁰ Engin, *Rumeli Demiryolları*, 58-59, 90. Bayraktaroğlu, “Development of Railways,” 28. Hertner, gives the number of kilometers to be constructed as 2500. Hertner, “The Balkan Railways,” 8.

⁴¹¹ Engin, *Rumeli Demiryolları*, 58. Bayraktaroğlu, “Development of Railways,” 28. Südbahn, the main line from Vienna to Trieste and Venice, was initially owned by the Austrian government; however, after a severe competition with the Pereires, James de Rothschild achieved to get its

South Austrian Railways was being directed by Anselm Rothschild and he was supporting the extension of Austrian railway network through Balkans. To him, this project was “a grand European enterprise in which the financial forces of France and England could [be] combined with those of Austria”. However, London and Paris houses which were being managed by his cousins were skeptical about the future of the project, partly due to “Turkish financial unreliability”.⁴¹² Therefore, they did not support Anselm in his decision.⁴¹³ They Therefore, despite all his original eagerness, Anselm withdrew from the project, but only one day before the termination date for adoption of the agreement, on 16 August 1869. Baron de Hirsch must have colluded with Anselm upon the date of declaration of withdrawal, considering that he founded another company for the operation of the network on 17 August 1869 and assigned Paulin Talabot as its manager.⁴¹⁴ Like South Austrian Railways, the Austrian State Railways founded by Pereire brothers also refused to participate in the project.⁴¹⁵ In the end, since there were no other operators, the concession was granted to Baron de Hirsch on 7 October 1869. Baron de Hirsch, obtaining the concession he wanted, founded two companies for both construction and operation, namely Société Impériale des Chemins de Fer de la Turquie d'Europe on 5 January 1870 and Compagnie

concession and founded South Austrian, Lombard-Venetian, and Central Italian Railway in 1858. For that year, its total network was more than 3000 km. Cameron and Boyvkin, *International Banking*, 531.

⁴¹² Niall Ferguson, *The World's Banker: The History of the House of Rothschild* (London: Weindenfeld, 1998), 691-92.

⁴¹³ Ferguson, *The World's Banker*, 820.

⁴¹⁴ Engin, *Rumeli Demiryolları*, 60.

⁴¹⁵ Hertner, “The Balkan Railways,” 7.

Générale pour l'Exploitation des Chemins de Fer de la Turquie d'Europe on 7 January 1870.⁴¹⁶

Financing of the project would be provided by issuing 1.980.000 lottery bonds, each having a nominal value of 400, with a total sum of 792 million francs (£32 million) bearing 3% interest rate.⁴¹⁷ Since the financial credit of the Ottoman Empire has been scattered among years, in order to attract small investors the bondholders would be paid bonuses with a total annual amount of 1.200.000 francs (£48.000). As a matter of fact, the amount of the bonds was identified according to the calculations for the capitalization of the construction cost. It was the time when Baron de Hirsch demonstrated his financial incentives. Using the advantage of heavy financial conditions in the Ottoman Empire, he could be able to buy all of the bonds, each from 128,5 francs. Immediately after, he transferred all of those bonds to a group of banks from 150 francs. According to the agreement with bankers, he would also get 30% of profit after the sell of bonds in the markets. On 10 March 1870, the first 750.000 of the bonds were introduced in the European markets from 180 francs.⁴¹⁸ However, lottery bonds were not being allowed officially for subscription both at Vienna, Paris and London stock exchanges. After some discussions, thanks to its deep interest in railways, Austrian government allowed quotation of the bonds in Vienna stock exchange on 27 June 1870. Nevertheless, non-involvement of Paris and London markets limited the success of the quotations.⁴¹⁹

⁴¹⁶ Hertner, "The Balkan Railways," 7. Engin, *Rumeli Demiryolları*, 61.

⁴¹⁷ Kazgan, *Galata Bankerleri*, 117.

⁴¹⁸ Engin, *Rumeli Demiryolları*, 62-64.

⁴¹⁹ Hertner, "The Balkan Railways," 8-9. Engin, *Rumeli Demiryolları*, 64.

At last, the construction began in Yedikule -Küçükçekmece on 4 June 1870. Unfortunately, outbreak of the Franco-Prussian War on 17 July impeded the progress of construction since many engineers were compelled to return back to their countries for military services. Nevertheless, the line could be completed at the end of 1870 with some delays and opened by the Grand Vizier on 4 January 1871. On the other hand, construction of the other lines could only be commenced in the first half of 1871, almost two years after the first agreement signed with Baron de Hirsch.⁴²⁰

Regarding the construction of the network, Baron de Hirsch started with the lines that could easily be constructed due to their suitable terrains. These lines had a total length of about 1.000 km. Therefore, at the beginning, the lines could be completed relatively fast. In fact, there were still some complaints about the construction regarding the expropriations, routes and particularly the quality. When the turn of the other lines, whose construction would be difficult and expensive, has arrived, Baron de Hirsch informed the Porte on that he was ready to transfer his concession to another company that would complete the construction of all lines.⁴²¹ In September 1871, Grand Vizier Ali Pasha died and Mahmud Nedim Pasha became the new Grand Vizier. Luckily for Baron de Hirsch, Mahmud Nedim Pasha insisted on some changes regarding the routes, which in turn led to a revision in the contract, mostly in line with Baron de Hirsch's wills. In May 1872, a new contract has been made and total length of the lines to be constructed by Baron de Hirsch was reduced.⁴²²

⁴²⁰ Engin, *Rumeli Demiryolları*, 65-70.

⁴²¹ Engin, *Rumeli Demiryolları*, 78-80.

⁴²² Engin, *Rumeli Demiryolları*, 80.

According to the new contract, Baron de Hirsch was to build 1279 km. railways rather than the initially agreed 2000 km. The lines to be constructed were İstanbul – Edirne (319 km.), Edirne – Sarımbey (243 km.) Dedeağaç-Edirne (149 km.), Selanik – Mitroviçe (361 km.), Banaluka - Novi (102 km.) and Tırnova – Yanbolu (105 km.).⁴²³ As a result, Baron de Hirsch was freed of constructing the most difficult parts of the network which would cost more than the rest. He also made huge profits since 200.000 francs cost per km. has been identified according to the whole network, including the problematic lines. In order to generate revenue from the network, the disconnected lines should be linked to the network by the Ottomans, which would create additional burden on finances.⁴²⁴

Railway construction in the Balkans was not the only attempt of the Ottomans. The proposition of Mithat Pasha on construction of a railroad between İstanbul and Baghdad culminated in an Imperial edict in 1871. Already being discontented about the problems with Baron de Hirsch, the Sultan decided to undertake the project as an initiative of the Empire. As a result, the construction of the line was commenced on 4 August 1871 from Haydarpaşa, and three days later from İzmit. In fact, such an initiation was too difficult for the government to implement, which had to deal with another huge project in the Balkans, too. In order to carry out the construction according to a sound plan, the Porte agreed with an Austrian engineer Wilhelm von Pressel in 1872 and charged him as the Director General of Asian Ottoman Railroads. According to the application project prepared by Pressel, a railroad of 4670 km. would be started from İstanbul

⁴²³ Bayraktaroğlu, “Development of Railways,” 28, 29. Hertner gives the total length as 1260 km. whereas Araz gives as 1274 km. Hertner, “The Balkan Railways,” 10. Araz, “Impacts of Political Decisions,” 15.

⁴²⁴ Bayraktaroğlu, “Development of Railways,” 29. Engin, *Rumeli Demiryolları*, 90.

and following İzmit – Ankara – Sivas – Diyarbakır – Musul – Baghdad route, would reach Basra.⁴²⁵

Despite all the inconveniences, the improvements in this regard were quite spectacular as they were highlighted in an article of the New York Times titled “Revival of the Sick Man”:⁴²⁶

“The text of the instructions lately transmitted by the Sultan of Turkey to his Grand Vizier has been made public. [...] The Sultan sets out by the statement that he is profoundly anxious to elevate and improve his country by every means in his power. The subject, he says, is constantly in his thoughts, and he is resolved that all his efforts shall tend to promote the prosperity of the Empire, and to develop its wealth, by giving a strong impulse to commerce and industry. He perceives the vast importance, to this end, of multiplying means of communication, and urges the energetic increase and improvement of railroads in a way that, coming from Turkey, sounds almost startling. The existing roads in Rumelia and Anatolia are to be at once completed and then extended. [...] Connections are to be regularly established between the railroads and rivers; and various other suggestions are made, and orders given, looking to the extension of commerce and the augmentation of the national resources. His Majesty has plainly, apart from this question of transit, been making a study of political economy. It is his desire, he affirms, to see ‘as great a reduction as may be affected in the cost price of the industrial products of Turkey, so as to facilitate the purchase and export which their good qualities will command.’ To help this on, he has issued orders that capital ‘in all suitable cases’ shall be advanced to manufacturers and merchants, ‘in order that no encouragement shall be withheld from the different branches of commerce and industry in the Empire’.

All this heralding as it does a powerful impetus for Turkish industry and productiveness, is important and interesting. There is not the least doubt that, with her soil, climate, and other advantages, Turkey can produce and sell to the rest of the world vastly more than she has hitherto done; and this, with the system of internal improvements projected by the Sultan, will enable

⁴²⁵ Özyüksel, *Anadolu ve Bağdat Demiryolları*, 15; Süreyya Algül, “Osmanlı’dan Cumhuriyete Anadolu’da Demiryolları İmtiyazları ve Chester Projesi” (Master’s Thesis, İstanbul Üniversitesi, 1998), 10-11. Araz, “Impacts of Political Decisions,” 16-17.

⁴²⁶ *The New York Times*, 3 January 1872.

the Turks to take and pay for a correspondingly greater amount of the products of other nations. In its commercial aspects, therefore, the news of this movement is significant. It is, however, in its social and political aspects, its relation to the great progressive waves of the nineteenth century, that this sign of awakening energy is most striking. A few years ago, the world would have expected such an indication from almost any other quarter, and from almost any other person, rather than a Sultan of the Ottoman Empire.”

The main question still remains there to be answered how the Ottomans dared to commence such a huge initiative regarding the construction of railways both in Balkans and in Anatolia. As can be remembered, beginning from early 1850s, the Ottomans took a strong interest in railway construction which would facilitate collection of taxes and transportation of troops in wartime, and bring prosperity to the Ottoman lands. Unfortunately, due to the financial disorder and lack of necessary institutions this desire could not be realized for many years. After the foundation of the IOB, there has been a relative improvement in this regard. Yet, the main impetus was brought to life after the Ausgleich between Austria and Hungary in 1867. Emerging of Vienna as a financial center in this period created many financial opportunities, which were utilized to some extent by the Ottomans as well. After many years of deprivation for railways, thanks to the encouraging financial environment taking root from Vienna to İstanbul, Ottomans pitched into the railway construction.

CHAPTER VI:

TOWARDS THE INSOLVENCY

6.1. The Ottoman Gründerzeit

As mentioned before, in the years of the Gründerzeit, Austrian economy experienced a boom phase mostly based upon railway construction.⁴²⁷ In this period, many joint-stock banks were established in Vienna, most of which were driven by speculative motives.⁴²⁸ During his visit to Vienna in 1869, Anthony Rothschild got an impression of a “speculative bubble fuelled by the National Bank’s lax monetary policy”.⁴²⁹ Nevertheless, this ‘speculative bubble’ created many opportunities for the financiers of the time, including the Galata bankers.

Historically, the Galata bankers have been heavily involving in financial activities, particularly in short-term advances to the Porte. Thanks to their close relations with European financiers, the Galata bankers borrowed three-month credits at a rate of 3-5% from Europe, and provided short-term advances at 12-18% to the Porte. In return, the Porte gave them government bills of exchange, or

⁴²⁷ Cottrell, “London Financiers and Austria,” 115.

⁴²⁸ Cameron and Boyvkin, *International Banking*, 329.

⁴²⁹ Ferguson, *The World’s Banker*, 691.

sergis and *havales* as guarantee. Later on, by using these papers as assurance, the Galata bankers secured additional financial means from the European markets. By doing so, they internationalized the papers of the Internal Public Debt.⁴³⁰

In time, they began to restructure themselves and beginning from the mid 1860's, they found joint stock companies.⁴³¹ The number of these companies increased substantially, particularly after the *Ausgleich*. Many factors have played roles in this development. First of all, the financial environment in Europe was suitable for raising funds. Secondly, the financial needs of the Ottomans were enormous due to the installment payments of the foreign loans, foreign trade deficits and new investment plans. Thirdly, creation of banks in the Ottoman land provided some confidence for the financiers. Therefore, between 1867-70, six Greek newcomers participated in banking in İstanbul, that is A. Syngros, S. Skoulouides, A. Vlastos, G. Coronia, P.M. Clado, and P. Camara. Among them, Skoulouides and Vlastos were members of well-established Greek Diaspora merchant dynasties, and Vlastos was a director of the *Société Générale de l'Empire Ottoman*.⁴³²

In December 1867, the first four established a banking house named Syngros, Coronia & Cie. The house of the rival Camara & Clado came about nine months later.⁴³³ Both Syngros, Coronia & Cie and Camara & Clado were limited partnerships of almost the same size. Similar to other private banking firms of Galata, their objectives were to provide short-term advances to the Porte and

⁴³⁰ Minoglou, "Ethnic Minority Groups," 134, 136; Exertsoglou, "Greek Banking in Constantinople," 133.

⁴³¹ Exertsoglou, "Greek Banking in Constantinople," 151.

⁴³² Minoglou, "Ethnic Minority Groups," 137.

⁴³³ Exertsoglou, "Greek Banking in Constantinople," 154.

discount on the government papers. However, the Galata banking elite wore dramatically as a result of their introduction of a new but risky financial technique, named as the *Mandat method*.⁴³⁴

The Mandat method was relatively safe as long as the price of Ottoman bonds of the Foreign Public Debt did not drop. However, the outbreak of the Franco-Prussian War in July 1870 changed the situation since there was a sharp decline in the prices of the Ottoman bonds. Nevertheless, timely disengagement of the financial brokerage house of Syngros and of the rival Camara & Clado from the method prevented potential serious consequences. As a result, the Mandat Method was not exercised anymore after the Franco-Prussian War.⁴³⁵

During the Franco-Prussian War, the French capital flew particularly to the London markets. The relative increase in the liquidity could not be invested in Europe due to the political instabilities because of the war. In this situation, İstanbul markets served as an appropriate environment for these limited funds.⁴³⁶

⁴³⁴ The mandates were five, six, or nine monthly treasury bills issued by the Ottomans to be paid in London. The Mandat method was more complex than the rather straightforward method of internationalization of the Ottoman internal debt employed by the Galata bankers. The introduction of the Ottoman bonds in the stock markets of London and Paris after 1865, created new opportunities for the Galata bankers, which were mostly appreciated by the newcomers. The newcomers provided urgently needed cash to the Porte by discounting the havales at 60-70% of their value. In exchange, they received bonds of the Ottoman Public Debt, which were well-guaranteed and had higher credit rating. Afterwards, by placing these foreign bonds in the stock exchanges of Paris and London, they could raise cheap short-term loans, which would be used in discounting mandates. Through this method, the newcomers received 12-18% interest while investing insignificant amounts of capital. Minoglou, "Ethnic Minority Groups," 139. Such operations continued in late 1860's and early 1870's and each year Treasury bonds amounted at no less than £1.000.000 were discounted by Syngros and Zarifi. Exertsoglou, "Greek Banking in Constantinople," 133.

⁴³⁵ All parties benefited from the process of this capital regeneration, in a sense. The Galata bankers, the IOB and Western financiers made huge profits, whereas the Porte became able to expand and reproduce its floating debt on foreign markets via the European branches of the IOB. Obviously, had this capital regeneration procedure increased every cycle, it would have led to an unlimited exposure. Minoglou, "Ethnic Minority Groups," 139-40.

⁴³⁶ For instance, in this period, Syngros went to Bischoffsheim in order to find credit. Bischoffsheim offered £400.000 rather than £100.000 Syngros asked for, with a rate of 3.5% since

As a result of the Franco-Prussian War, France was defeated. In February 1871, it was decided that an indemnity amounting at 5 billion francs (£200 million) was to be paid by France to Prussia. The necessary funds for the indemnity could be raised through a series of loans realized by France. In the end, most of this amount flew to Austrian markets and “fed the fires of speculation in railroads and building that spread to Austria”.⁴³⁷

Thanks to the 5 billion francs of indemnity, the post-war European boom partly centered on Vienna. Already having the *Gründerzeit*, Vienna had another momentum for its economy. Only in the capital, 63 banks were founded in between the years 1867 and 1873. Moreover, while there were 900 people playing with 152 securities of the Vienna stock market in 1867, those numbers rose to 3500 and 605 in 1871, respectively.⁴³⁸

Similar to the Vienna case, İstanbul also experienced a boom in the number of banks founded in this period. At the end of 1871, there were nine joint stock companies in İstanbul and almost in a year, ten more were founded, which included the German Oriental Bank, the Bank of Ralli and Nomico, the Bank of Cossoudi & Verisi, the Bank of Parisi and Calouthi, the Société Minérale Ottomane, the Société Commerciale Ottomane, the Credit Industriel d’Orient, the Banque de Constantinople, the Société Ottomane des Changes et Valeurs and the Société des Tramways.⁴³⁹

he did not know what to do with large sums of money that came from Paris. Exertsoglou, “Greek Banking in Constantinople,” 156-57.

⁴³⁷ Kindleberger, *A Financial History of Western Europe*, 240-48.

⁴³⁸ Cottrell, “London Financiers and Austria,” 118.

⁴³⁹ Exertsoglou, “Greek Banking in Constantinople,” 159.

This was also the time when European capital poured into İstanbul via the Viennese bankers. As a result of the Viennese capital, two banks were established in İstanbul; the Austro-Ottoman Bank with a capital of £2.500.000 and the Société Austro-Turquie with a capital £2.000.000.⁴⁴⁰ Naturally, the Galata bankers took the advantage of this capital inflow once again, and participated in the establishment of these banks.

Société Générale was involved in the establishment of Austro-Ottoman Bank with some Viennese banks including the Credit Anstalt, Union Bank and Anglo-Austrian Bank.⁴⁴¹ The other bank established by Viennese capital was the Société Austro-Turquie. According to news published in February 1872 in *Neologos*, some members of the managing board of Société Générale, with some other Galata bankers, went to Vienna to negotiate the establishment of a bank in İstanbul. As a result of the meeting, on 17 March 1872⁴⁴² the Société Austro-Turquie was established with participation of six Galata bankers, namely Zarifi, Zographos, Carapanos, Rallis, Stephanovitch-Skylitsis and Vlastos as well as of the Société Générale. There were others involved in this operation such as Camondo and Otto Ullman whereas the Viennese partners were including the Union Bank of Vienna, the Anglo-Austrian Bank and the Oppenheim. All the Galata bankers involved in this affair were included in the managing board.⁴⁴³

⁴⁴⁰ Autheman, *The Imperial Ottoman Bank*, 56. Hasan Ferid Bey, *Nakit ve İtibar-i Mali*, 351. Clay, *Gold for the Sultan*, 189-90.

⁴⁴¹ Hasan Ferid Bey, *Nakit ve İtibar-i Mali*, 351, Exertsoglou, "Greek Banking in Constantinople," 157.

⁴⁴² Exertsoglou wrongly gives the date as 17 March 1873. Exertsoglou, "Greek Banking in Constantinople," 158. In fact the bank was founded in 1872. Autheman, *The Imperial Ottoman Bank*, 56.

⁴⁴³ Hasan Ferid Bey, *Nakit ve İtibar-i Mali*, 352. Exertsoglou, "Greek Banking in Constantinople," 158. Clay, *Gold for the Sultan*, 190.

Table 4: 1872-74: Companies at İstanbul Stock Exchange (£: Pounds Sterling, LT: Turkish Lira)⁴⁴⁴

Name	Year	Nominal Capital	Subscribed Capital
<i>Imperial Ottoman Bank</i>	1864	£4.000.000	£4.050.000
<i>Société Générale</i>	1863	£2.000.000	£1.000.000
<i>Crédit Général</i>	1868	£2.000.000	£1.000.000
<i>Austro-Ottoman Bank</i>	1871	£2.000.000	£800.000
<i>Société Austro-Turquie</i>	1872	£2.000.000	£800.000
<i>Banque de Constantinople</i>	1872	£1.000.000	£600.000
<i>Société Ottomane</i>	1872	£600.000	£300.000
<i>Société Commerciale</i>	1872	LT 600.000	LT 54.545
<i>Bank Verisi-Cossoudi</i>	1873	LT 200.000	LT 36.363
<i>Bank Ralli Nomico</i>	1873	£100.000	-
<i>Tramways</i>	1871	LT 800.000	LT 250.000
<i>Company of the Underground</i>	1873	£250.000	£250.000

In fact, rather than transacting with the treasury or making investment, most of these banks dealt with speculation since the interest rates in İstanbul were still usurious. Similarly, Galata bankers usually did not buy huge amounts of Ottoman bonds since the profits from speculation reached at 20-25% whereas short term lending yielded only 12-18%.⁴⁴⁵ The motive was the liquidity necessity of the Galata bankers in order to catch the increasing financial opportunities. Transportation, for instance, was an expensive sector for the Galata bankers to invest in.⁴⁴⁶

⁴⁴⁴ Exertsoglou, "Greek Banking in Constantinople," 162-63.

⁴⁴⁵ Exertsoglou, "Greek Banking in Constantinople," 163. There were in fact a few exceptional cases. For instance, Société General de l'Empire Ottoman took part in 1869 loan, whereas George Zarifi personally participated in 1871 loan. Another example for direct involvement of Galata bankers to Ottoman loans was issuing of 1873 loans. In this case, Banque de Constantinople, subscribed for 20% of £30 million contract with the Euroean Credit General and Credit Mobilier. Exertsoglou, "Greek Banking in Constantinople," 134, 137.

⁴⁴⁶ Exertsoglou, "Greek Banking in Constantinople," 148.

In the meanwhile, the Porte was in urgent need of additional funds due to the financial burden of railway construction and installments of the foreign loans. For the fiscal year 1870-71, 459 million *kuruş*, constituting 28% of the budget revenue, were allocated to the Ottoman Bank for the payment of installments. The following year, the allocated amount was 538 million *kuruş*.⁴⁴⁷ Yet, foundation of new companies and flow of funds via them into İstanbul gave hope for the future and paved the way for further investments. However, outbreak of the Franco-Prussian War suspended the suitable environment for a new foreign loan.⁴⁴⁸ Therefore, in this period, the Porte relied on the short term advances of newly established companies in order to make new investments and pay the installments of foreign loans, which meant higher interest rates and more disorder in finances.⁴⁴⁹ (See table)

Table 5: Local Loans contracted between November 1871 and March 1872 (in Liras)⁴⁵⁰

<i>Advance from the Société Générale</i>	1.400.000
<i>Advance from the Banque de Constantinople</i>	600.000
<i>Advance from the Austro-Ottoman Bank</i>	600.000
<i>Advance from the House of P. Clado</i>	100.000
<i>Advance from the Austro-Ottoman bank</i>	300.000
<i>Advance from the House of Coronio & Cie</i>	300.000
<i>Advance from the Imperial Bank</i>	400.000
Total	3.800.000

Following the peace settlement in June 1871, a loan agreement of £5.700.000 was arranged with Crédit Général and London Dent Palmer Bank at

⁴⁴⁷ BOA İ.DH., No: 43816 and 46239, in Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 149.

⁴⁴⁸ Kömürçan, *Türkiye İmparatorluk Devri*, 38-39.

⁴⁴⁹ Exertsoglou, “Greek Banking in Constantinople,” 145.

⁴⁵⁰ Exertsoglou, “Greek Banking in Constantinople,” 145.

6% interest rate.⁴⁵¹ The relief of the Porte due to the loan, raised the credit of the Ottoman Empire.⁴⁵²

Table 6: 1871-72: Prices of Company Securities at İstanbul Stock Exchange⁴⁵³:

	1871	1872
<i>Balkan Railways</i>	53.13	60.23
<i>1863 Loan</i>	336.-	367.-
<i>1865 Loan</i>	340.50	375.-
<i>1869 Loan</i>	281.50	325.50
<i>Société Générale</i>	10.22	13.14
<i>Crédit Général</i>	12.18	17.17
<i>Tramways</i>	7.50	15.70

Another attempt came from the Austro-Ottoman Bank in cooperation with the Crédit Général to raise a loan of 11.1 million liras.⁴⁵⁴ Most of the amount would be raised in the Vienna markets in August 1872. The terms of the contract could be deemed as favourable after a long time, at 98.5 issue price and repayable in Treasury Bonds.⁴⁵⁵ However, the IOB, being discontented to an attempt initiated without its participation, strived to obstruct the achievement of this loan.⁴⁵⁶ The subscription began in early August, but the result was not a successful one. The French loan, which was raised a few months ago, and the second series of the Railway Loan as well as some complaints by British bondholders might have played role in this disappointment.⁴⁵⁷

⁴⁵¹ Kömürçan, *Türkiye İmparatorluk Devri*, 38-39. Autheman, *The Imperial Ottoman Bank*, 56.

⁴⁵² Autheman, *The Imperial Ottoman Bank*, 57.

⁴⁵³ Kömürçan, *Türkiye İmparatorluk Devri*, 42.

⁴⁵⁴ Clay, *Gold for the Sultan*, 189.

⁴⁵⁵ Autheman, *The Imperial Ottoman Bank*, 57.

⁴⁵⁶ Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 155.

⁴⁵⁷ Kömürçan, *Türkiye İmparatorluk Devri*, 41.

6.2. The Panic of 1873 and the Moratorium

Under these very circumstances, Ottomans were trying hard to provide the necessary means in order to carry out the construction of railway network. First of all, disconnected lines should be constructed in order to have a sound network in the Balkans. Besides, the Haydarpaşa – Basra line commenced as an Ottoman initiation should also be completed.

Although seven months passed after the revision of the contract signed with Baron de Hirsch on 18 May 1872, there was no improvement in this respect. After the revision of the contract, the lines to be constructed by the Ottomans reached at 1.300 km with an estimated cost of 13 million liras. It was inevitable to raise a new loan for the finance of the construction of both Balkan and Anatolian railway since any delay in the completion date would give cause to indemnity. According to the preliminary calculations, the amount of the loan to be raised was 25 million liras.⁴⁵⁸

Luckily, in late 1872 the Austro-Ottoman Bank could be able to reach an agreement with the BIO to found a company that would deal with railway constructions. These two banks, together with the Crédit Général founded a Consortium and agreed with the Porte in March 1873 for a loan of 50 million liras, which was to be used for railway construction.⁴⁵⁹

⁴⁵⁸ Engin, *Rumeli Demiryolları*, 104-106.

⁴⁵⁹ Clay, *Gold for the Sultan*, 189-90. Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 155. Engin, *Rumeli Demiryolları*, 120.

Meanwhile, the lines under Baron de Hirsch's responsibility with a total length of 1279 km. were almost completed and some of them began to operate.⁴⁶⁰ There were some minor improvements regarding the Ottoman initiative. The Haydarpaşa line arrived at Gebze in January 1873, and was expected to arrive at İzmit in August. In order to connect Ankara to İzmit, construction of another line was to be started from Ankara in the same month. Another line between Mudanya and Bursa was commenced in April 1873.⁴⁶¹

The loan agreement must have relieved the Porte regarding the future of railway constructions. In fact, the problem of huge floating debt still remained visible. Therefore, the Porte wanted a second loan, which would provide the Porte effectively £15-18 million at least. This loan was to be allocated to the settlement of floating debt and to redeem the Treasury Bonds of 1872. On the other hand, the Consortium expected to get a concession for the Anatolian network. However, due to problems arising between the Porte and Baron de Hirsch regarding the construction, Sultan Abdülaziz was favoring a close official control over the contractor. For two months, there has been no concrete improvement regarding neither the concession nor the loan, and the crumbs of hope totally slipped away after the arrival of news on the stock market crash in Vienna.⁴⁶²

It was 9th of May when the Vienna stock market collapsed on a 'Black Friday'.⁴⁶³ As mentioned before, Vienna experienced a boom after the Ausgleich, especially from 1871 to 1873. The 5 billion franc indemnity of France found its

⁴⁶⁰ Engin, *Rumeli Demiryolları*, 110.

⁴⁶¹ Araz, "Impacts of Political Decisions," 16-17.

⁴⁶² Clay, *Gold for the Sultan*, 218-20.

⁴⁶³ Kindleberger, *Historical Economics*, 316. The day is named as 'Schwartzter Freitag' (Clay, *Gold for the Sultan*, 220) and the event is known as Viennese Krach (Kindleberger, *Historical Economics*, 311).

way to Vienna, where it led to widespread speculation, particularly in railway securities. The expansion of markets in Vienna continued till the fall of 1872 due to the promising atmosphere emanated from the World Exhibition to be opened in Vienna on 1 May 1873. Yet, the signs of a crisis began to appear in late 1872. Lasker, the member of the Prussian House of Delegates, was among the first who called attention to some scandals and manipulations in railroad, in February 1873. Following his denouncements, another quasi-panic broke out on 10 April 1873. On 1st of May, the Exhibition was duly opened but in a week the panic broke out.⁴⁶⁴

The crash, which afterwards was considered as the beginning of the first truly international crisis⁴⁶⁵, continued until the closing of the market on 10th of May. When it was reopened on 13th of May, the panic was almost receded. Even though it seemed that there were no immediate repercussions of the panic outside Austria⁴⁶⁶, the Ottomans due to their close ties with Vienna markets that had developed over the recent years were greatly affected. Favourable business conditions were severely affected which resulted in sharp price falls at Galata stock market. Consequently, banks in Galata were faced with heavy losses, particularly those which had direct connection with Vienna.⁴⁶⁷

In a few days, the directors of the Austro-Ottoman Bank were instructed to disengage from all their liabilities, particularly from the Railway Loan. The Consortium still wanted to continue its preparations for the loan without the

⁴⁶⁴ Kindleberger, *Historical Economics*, 314-16.

⁴⁶⁵ To Kindleberger Panic of 1873 precedes 1890 and 1929 depressions both of which were followed by "fairly deep depression on a global scale". Kindleberger, *Historical Economics*, 310.

⁴⁶⁶ David Glasner, "Crisis of 1873," in *Business Cycles and Depressions: An Encyclopedia*, ed. David Glasner, (New York: Garland Publishing, 1997), 133.

⁴⁶⁷ Clay, *Gold for the Sultan*, 220.

Austro-Ottoman Bank.⁴⁶⁸ In August, an agreement was reached with the Porte for a loan of £27.78 million which was to be issued in October 1873 at 6% with an issue price 42.⁴⁶⁹

Meanwhile, the crisis was spreading over Europe and in September 1873 the Berlin stock market collapsed simultaneously with that of New York.⁴⁷⁰ European investors, willing to liquidate their holdings in American securities due to their financial needs, led to another crash in the United States. On 1st of November, the Vienna stock market crashed once again, which meant that the crisis became an international one.⁴⁷¹

As a matter of fact, this incidence had negative impacts on the subscription of the loan and the result was a failure.⁴⁷² The first part of the loan amounting £8 million was issued at a price of 59.5 in Paris and yielded £4.76 million to the Porte.⁴⁷³ Under these circumstances, there was almost no chance for the Railway Loan to be raised, and therefore it was abandoned.⁴⁷⁴ Impacts of the Panic were also destructive for the Société Austro-Turque. In order to survive, the administrators firstly looked for an appropriate company to merge with, to no avail. Unfortunately, it went bankrupt after a few months of resisting.⁴⁷⁵

It is a historical fact that panics that were met successfully mostly found some source of money to ease the liquidation of assets before sharp declines in prices. The main question is that who is responsible for providing cash, or acting

⁴⁶⁸ Clay, *Gold for the Sultan*, 221-22.

⁴⁶⁹ Clay, *Gold for the Sultan*, 225-27

⁴⁷⁰ Kindleberger, *Historical Economics*, 316.

⁴⁷¹ Glasner, "Crisis of 1873," 133.

⁴⁷² Autheman, *The Imperial Ottoman Bank*, 58.

⁴⁷³ Clay, *Gold for the Sultan*, 227.

⁴⁷⁴ Clay, *Gold for the Sultan*, 222.

⁴⁷⁵ Clay, *Gold for the Sultan*, 190.

as a *lender of last resort*.⁴⁷⁶ It can be argued that, there was no lender of last resort in the Ottoman Empire that would make the financial market relieved. Although, the IOB was acting as the central bank, it was still far from serving as a lender of last resort. As a matter of fact, there was no other candidate in this respect, and the crisis deepened through time.

After the Panic, the Ottomans once again relied on the Galata bankers since they could not find new funds from Europe in order to pay the installments of the existing foreign loans. The floating debt, which remained almost steady until 1873, showed a significant increase in the following year.⁴⁷⁷ Besides, the Galata bankers, who lowered the interest rates from 15% to 10% beginning from 1872 due to the competition on Ottoman finances, became very reluctant for lending after the Panic at a rate below 30%.⁴⁷⁸

Table 7: The volume of the floating debt, 1862-1875:⁴⁷⁹

Year	Amount (in Frs)	Amount (in £)
1862	272.519.650	10.900.786
1872	271.960.000	10.878.400
1873	280.000.000	11.200.000
1874	340.000.000	13.600.000
1875	400.000.000	16.000.000

The failure of the loan of 1873 and the abandonment of the Railway Loan led to huge increases in short-term borrowings at ruinous rates. In January 1874, The Ottoman Empire could not meet its commitments to Europe, which led to

⁴⁷⁶ Kindleberger, *A Financial History of Western Europe*, 277.

⁴⁷⁷ Exertsoglou, "Greek Banking in Constantinople," 142.

⁴⁷⁸ French ambassador De Vogue reports such as a loan of £4.000 with an interest of 24%, realized in late 1873. See Exertsoglou, "Greek Banking in Constantinople," 147. The interest rates were 20-22% in early November and 25-30% at the end of the year. Clay, *Gold for the Sultan*, 228.

⁴⁷⁹ Exertsoglou, "Greek Banking in Constantinople," 143. There were also some more pessimistic calculations, 19.96 million (£18.1 million) liras floating debt, 13.18 million (£12 million) of which should be paid until mid-1874. Clay, *Gold for the Sultan*, 228.

protests. As a result, Treasury assets of the IOB were attached to Paris.⁴⁸⁰ On 17th of January, Sadık Pasha went to Vienna however his attempts were met with failure.⁴⁸¹ In such a hopeless plight, the Porte could provide an advance of 75 million francs (£3 million) from the Galata bankers.⁴⁸²

In March 1874, the floating debt was equal to £13.386.363 and the annual payment was approximately £2 million, which meant almost a 16% interest rate on average. The British Charge d’Affairs, Rumbold wrote that “The Grand Vizier assured me that through the recent advances obtained by the Porte, although of a ruinous rate, the government is provided with the means of meeting all its engagement up to the month of March (1874) [...] but [...] [u]nless the system of carrying on the government by means of advances at ruinous rates of interest from the Galata houses can be effectively broken up, it is impossible not to see that a fatal crash cannot be indefinitely deferred.”⁴⁸³

After his visit to Vienna in January, Sadık Pasha went to Paris in April where he met with the top management of the IOB.⁴⁸⁴ In this meeting Sadık Pasha proposed the IOB to be the sole financial agent and Treasurer Paymaster-General of the Ottoman Empire. He also asked the IOB to merge with the Austro-Ottoman Bank in order to maintain the connections of the Ottomans with Vienna

⁴⁸⁰ Autheman, *The Imperial Ottoman Bank*, 58.

⁴⁸¹ Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 156.

⁴⁸² Kömürçan, *Türkiye İmparatorluk Devri*, 45.

⁴⁸³ Exertsoglou, “Greek Banking in Constantinople,” 146.

⁴⁸⁴ Autheman, *The Imperial Ottoman Bank*, 74. Bayraktar, “Osmanlı Bankası’nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti’nin Moratoryum İlanındaki Yeri (1863-1875),” 156.

markets.⁴⁸⁵ Besides, Sadık Pasha signed a short-term loan contract amounting 1.760.000 liras with the IOB and the Comptoir d'escompte.⁴⁸⁶

After the agreement with the IOB and the Austro-Ottoman Bank on 6th of June, the merging operation was commenced. The capital of the IOB was increased to £10 million in order to act properly as the Treasurer Paymaster-General of the Ottoman Empire.⁴⁸⁷ It was 20 August 1874 when a loan contract for £40 million was signed with the BIO. The subscription began in 18 September and the results were encouraging for the Porte.⁴⁸⁸

In mid-1874, the impacts of the Panic were relatively receded. However this optimism did not last too long. The Porte lost so quickly its control on the budgetary situation because of significant shortfalls in expected revenues. The intensified famine in Anatolia in 1874-75 led to many losses in livestock as well as many thousands of deaths. In order to provide relief to the sufferers of the famine, 2 million liras were spent, by November 1874.⁴⁸⁹ Therefore, neither the floating debt nor the budget deficit could be sorted out.⁴⁹⁰

By early 1875 it was understood that the railway constructions under the responsibility of the Ottoman's would not be completed until the deadline of 18 May 1875. Hence, some proposals were made, including that of Baron de Hirsch, to the Porte for the finalization the Belova-Sofia line. However, the revolts that broke out in Herzegovina and then in Bosnia worsening the situation delayed the

⁴⁸⁵ Autheman, *The Imperial Ottoman Bank*, 74-75.

⁴⁸⁶ Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 156.

⁴⁸⁷ Autheman, *The Imperial Ottoman Bank*, 76-77.

⁴⁸⁸ Autheman, *The Imperial Ottoman Bank*, 79-80. Bayraktar, "Osmanlı Bankası'nın Kuruluşu, Faaliyetleri ve Osmanlı Devleti'nin Moratoryum İlanındaki Yeri (1863-1875)," 156-57.

⁴⁸⁹ Clay, *Gold for the Sultan*, 80.

⁴⁹⁰ Autheman, *The Imperial Ottoman Bank*, 86.

decision of the Porte. Due to higher military expenses, and difficulties for construction in time of the revolt suppression, the Ottomans aborted the construction of the lines in the second half of 1875.⁴⁹¹ In the end, there were three isolated lines⁴⁹² and “railway stations without towns and towns without railway stations”⁴⁹³. In other words, Abdülaziz was “a victim of a real railroad crisis” as well pointed out by Ignatiev in 1873.⁴⁹⁴

The financial situation of the Empire was unbearable due to added military expenses and the famine. Exertsoglou quotes a letter of Homberg, the then inspector of Ottoman finance to the French Foreign Secretary: “[T]he current account of the bank (Imperial) had been entirely absorbed while the capital of all local establishments was already heavily involved in short term advances to the Treasury which nevertheless lacked the necessary amounts of bonds to place as security. [...] The fear that a suspension would have disastrous effects forced local bankers to assure once more the payments of the coupons of April (1875) with an advance of £1.5 million.”⁴⁹⁵

On 18th of August, Sultan Abdülaziz asked the bureaucrats to calculate the costs of the railway constructions up to then both in Anatolia and in Balkans. As a result of the calculations, it was seen that 2.400.000 liras were spent for unfinished railway lines.⁴⁹⁶ The costs of the railways that were constructed by Baron de Hirsch were much higher. Baron de Hirsch was paid by the Porte 200.000 francs per km. for 1279 km. of railways, which reaches at 255,8 million

⁴⁹¹ Engin, *Rumeli Demiryolları*, 123.

⁴⁹² Good, “Financial Integration in Late Nineteenth-Century Austria,” 11.

⁴⁹³ Good, “Financial Integration in Late Nineteenth-Century Austria,” 14.

⁴⁹⁴ Davison, *Osmanlı İmparatorluğu’nda Reform*, 10.

⁴⁹⁵ Exertsoglou, “Greek Banking in Constantinople,” 142.

⁴⁹⁶ Engin, *Rumeli Demiryolları*, 124.

francs (£10 million). However, since the lines could not be connected to each other, operational revenues were at insignificant amounts. According to the calculations, it seems that Baron de Hirsch made a profit amounting 350 million francs between 1870-75, which made him the “associate of kings and princes”⁴⁹⁷ in the end.⁴⁹⁸

As a result, on 6th of October, the Porte announced that the payments would be paid half in cash and half in bonds for five years.⁴⁹⁹ However, that was not sufficient to rescue the finances. Right after the revolt in Bosnia, revolts of Serbia and Montenegro broke out in the spring of 1876. It was then; the Porte suspended all the payments of public debt, admitting the bankruptcy of the Empire.⁵⁰⁰

⁴⁹⁷ *The New York Times*, 22 April 1896.

⁴⁹⁸ Engin, *Rumeli Demiryolları*, 127.

⁴⁹⁹ Clay, *Gold for the Sultan*, 299. Autheman, *The Imperial Ottoman Bank*, 87.

⁵⁰⁰ Autheman, *The Imperial Ottoman Bank*, 89.

CHAPTER VII:

CONCLUSION

When the 19th century is examined, one can identify some specific developments that marked the era. Internationally, nationalization movements stemming from the French Revolution, Vienna Congress, Industrial Revolution and internationalization of banking activities were some of those. In the Ottoman context, some significant developments can be mentioned such as reform movements in order to reestablish central authority, the attempts for modernization and industrialization, and the beginning of foreign borrowing. In fact, both international developments and Ottoman reactions are intermixed and it would be difficult to analyze them separately.

In the first half of the 19th century, increased production in Europe, thanks to the Industrial Revolution, found its way to other parts of the world, including the Ottoman Empire. The accumulated funds as a result of excess production were used both for investments and for foreign lending. In the end, Europe became more prosperous.

On the Ottoman side, there were many revolts as a result of nationalistic movements beginning from the 19th century onwards. On the other hand, the increasing power of the local leaders (*ayans*) was threatening the integrity of the Ottomans. Mahmud II, after agreeing with *the ayans*, formed a new bureaucratic administrative class, abolished the Janissary Corps in 1826 and established a new army in order to strengthen the political power of the center. Considering the costs of reforms, revolts and wars as well as decrease in the amount of collected taxes, the financial need of the Empire was unbearable. In addition to that, foreign trade deficit was increasing due to the great increase in the amount of imports.

In order to modernize the Empire, new investments were needed which in turn meant a new burden on finances. Those financial needs would be met by additional funds, new investments and by the help of the banks that were to be established. In general, it may be argued that reform movements, the attempts to establish banks, beginning of industrialization and the internationalization of public debt marked the 19th century Ottoman history.

In order to simplify the matters in such a complex structure, this thesis argues that the reform movements as well as industrialization attempts goes hand-in-hand with foreign borrowing and attempts to establish banks. In other words, banking attempts and foreign borrowings initially aimed at the industrialization of the Empire. However, in this period most of the foreign loans were spent either for the improvement of the monetary system or for repayment of debts rather than investment in industrialization. It should be kept in mind that, in this period, especially in the second half of the 19th century, railways was an expression of the industrialization for the Ottomans, as it was for the rest of the world.

Even though the first foreign loan had been realized on the eve of the Crimean War in 1854, it was not the first option adopted by the Ottomans in an effort to recover from their financial problems. In fact, despite their unbearable financial needs, Ottomans tried hard not to borrow from Europe for many decades and exercised many other options, such as the debasement of coinage, issuing paper money, appealing to the contribution of public and internal borrowing. However, all these attempts brought no permanent solutions to the financial problems of the Empire.

It can be argued that the Ottomans were not aware of the benefits of banks in the first half of the century. Another reason for being late in banking might be the distrust of the Ottomans to those who offered to establish banks in the Ottoman lands. Probably, the Ottomans exhibited the same hesitation with regard to foreign borrowing.

However, one can observe that such hesitations of the Ottomans partly disappeared after the alliance with France and Britain in the Crimean War. In this period, Ottomans must have enjoyed to be considered as a member of the European world. It was only then that the Ottomans consented to, and even pursued foreign loans. By then, the monetary system of the Empire had almost collapsed and the cost of the Crimean War worsened the financial situation. On the other hand, since the Empire lacked a state bank that would be trusted in European financial circles, interests of the loans were very high and terms were severe. Additionally, these loans, at first hand, should have been allocated for improvement of the monetary system rather than investments, since the former had tangible devastating effects on Ottoman finances.

Throughout the 19th century Ottoman financial needs were enormous which led them first to debase coinages, which in turn brought a greater disorder in the monetary system. Another option was short-term borrowings from the local Galata bankers at ruinous interest rates which in turn strengthened the positions of the Galata bankers, and also increased financial instability. Parallel to this development, the internationalization of banking subsequently led to the internationalization of domestic debt and the increased international role of the Galata bankers. The combination of these developments delayed the Ottomans from establishing banks that would provide the necessary finance, particularly the establishment of a state bank that would have put the monetary system in order and would have acted as a lender of last resort in times of crisis.

Until the Crimean War, disorder in the monetary system could be handled somehow. However, the cost of the War could only be mitigated by the help of foreign loans. This was also the time when the Ottomans began to deliberate about the advantages of banks for the economy, especially on their roles in arranging foreign loans. In addition, due to alliance with France and Britain and the fertile environment of peace, European bankers and investors, including the most prominent ones, were pouring into İstanbul seeking for business opportunities. However, in almost two years, most of them with minor exceptions left İstanbul without establishing banks or making investments.

Coping with many political problems for decades, the Ottomans tried to take advantage of this post-war situation. Considering its political implications, Ottomans sought the optimum solution that would not annoy any of their allies on the one hand, and tried to establish a bank under their control that would serve

their own ends, on the other. However, such an attitude did not inspire confidence in the bankers. On the contrary it strengthened their reservations for a joint venture. In this period, railway constructors were relatively weak financially and had recently began to gain the necessary financial strength, whereas the Ottomans were not very familiar with financial affairs. However, mostly driven by their political concerns, regarding banking concessions, the Ottomans preferred those who had some relation with railways rather than well-known, experienced and financially strong bankers. Unfortunately, such an act dispirited bankers and led to a competition between them and railway constructors. Since banks could not be founded due to prolongation of competition, foreign borrowings could only be made on severe terms, and payments could only be made by short-term borrowings which in turn aggravated financial instability. Banking attempts of those specialized in railway construction were faced with hindrance by bankers which eventually led to failure.

In the end, neither the Ottoman State nor the foreign investor could receive the benefits they initially expected. The Galata bankers were a great exception. They yielded great profits from short-term loans. Discontented foreign bankers abandoned the area whereas railway constructors failed in almost every attempt. The Ottomans had neither a sound institution that would facilitate foreign borrowings and ameliorate the monetary system nor the railways they needed. Additionally, all of the initial political concerns of the Ottomans towards foreign borrowing were materialized and their credibility was shattered.

Due to the lack of a national bank, the internationalization of borrowings had devastating impacts on both the Ottoman financial and monetary system

which in turn aggravated financial needs and created a vicious circle of borrowing. Although some banks were founded after the 1850s, financial problems could not be handled easily anymore. Additionally, due to the financially unstable and risky environment, railway constructors could not make any major progress. Craving for railways for many years, the Ottomans desperately looked for those who could build railways to no avail, with some minor exceptions. It could only be possible in 1868, to make an agreement on railway construction in the Balkans. However, this agreement was not made with a professional railway constructor but with a banker. This was the irony of the Ottoman attempts, which aimed at giving banking concessions to railway constructors in the 1850s, and finally consented to grant railway concessions to bankers in the late 1860s.

In fact, the financial situation had so worsened over time that made it impossible to meet the high cost of the railways. Besides, due to some problems with the contractor, railways were being constructed as isolated lines of poor quality which followed different paths than agreed upon. In the meantime, Vienna began to rise as the financial center for railway speculators. In this fertile environment, many joint stock companies were established to run business in İstanbul, two of which deserve attention, namely, Austro-Ottoman Bank and Société Austro-Turquie. The Ottomans being at its wits end with regard to railway construction, decided to construct part of the railway network on their own, relying on promising opportunities at Vienna. However, implementing such a project exceeded their technical as well as financial limitations.

Despite all these inconveniences, there was still some hope for the completion of the project. At this very moment, a consortium offered the Ottomans a loan of 50 million liras, which was to be raised mainly in Vienna markets and to be allocated to railway construction. Unfortunately, this loan could not be raised due to the collapse of Vienna markets in May 1873. The effects of this first global financial crisis, known as the Panic of 1873, were devastating for the Ottomans. Right after the Panic, Société Austro-Turquie went bankrupt alongside some other companies doing business in İstanbul. In addition, in order to survive the Panic, the Austro-Ottoman Bank was compelled to merge with the Imperial Ottoman Bank. In order to meet its liabilities stemming from the railway construction, the Ottomans sought new foreign loans which could only be arranged under very severe terms.

The impacts of the crisis were catastrophic since there was no lender of last resort. In order to pay the installments of existing loans, the Ottomans mostly relied upon short-term advances of the Galata bankers at ruinous rates. However, the Ottomans had been trying for many years to put an end to short-term borrowings that distorted the monetary system. Besides, military expenses had been growing because of the revolts in the Balkans and urgent Russian threat. Under these circumstances, the Ottomans disengaged from the railway constructions in the second half of 1875 and declared a moratorium on 6th of October.

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ANNEXES

Annex I: Ottoman Loans 1854-74 (in pounds sterling (£), francs (Frs), and liras)

Date	Name(s)	Issued by	Nominal capital	Interest rate (%)	Period of Redemption	Annuity	Guarantee
1854	1854 Tribute Loan	Dent Palmer at London	£3.000.000	6	34	£210.000	Egyptian Tribute
1855	Guaranteed 1855 Tribute Loan	Rothschilds at London	£5.000.000	4	42	£250.000	Egyptian Tribute and İzmir customs Guaranteed by British & French Governments
1858	1858 Customs Loan	Dent Palmer at London	£5.000.000	6	33	£350.000	Istanbul customs
1860	Emprunt Mirés	J. Mirés at Paris	Frs 50.930.500 £2.037.200	6	36	Frs 3.475.000 £139.000	Contributions indirectes and tithes
1862	1862 Loan	Ottoman Bank and C. Devaux at London	£8.000.000	6	24	£640.000	Contributions indirectes
1863-64	1863 Customs Loan	BIO at London Credit Mobilier at Paris	Frs 200.000.000 £8.000.000	6	23,5	Frs 16.000.000 £640.000	Provincial and Istanbul customs; Contributions indirectes and; tithes
1865	General Debt Consolides (First Series)	Erlanger at Paris General Credit and Finance Co. at London	Liras 40.000.000 £36.363.640 Frs 909.091.000	5	1	£1.818.182	The revenues of the Empire in general

1865	Sheep Tax Loan	BIO at London and Paris Credit Mobilier at Paris	Frs 150.000.000 £6.000.000	6	21	Frs 12.657.500 £506.300	Sheep tax of Rumelia and the Archipelago, Tokat Copper mines
1869	Pinard Loan	Comptoir d'escompte at Paris	Frs 555.555.500 £22.222.220	6	33	Frs 38.888.885 £1.555.555	Tithes of various provinces
1870-72	Lottery Loan	Soc. Imp. des chemins de fer de Turquie d'Europe	Frs 792.000.000 £31.600.000	3	105	Frs 27.992.042 £1.119.682	General Promise of the Ottoman government
1871	1871 Tribute Loan	Dent Palmer - Crédit Général Ottoman	£5.700.000	6	33	£399.000	Egyptian Tribute
1872	Treasury Bonds of 1872 Tubini Bonds	Crédit Général Ottoman and Banque Austro-Ottoman	£11.126.200	9	4,5 and 6	£1.001.358	Tithes and sheep tax of various provinces
1873	Railway Loan	BIO, Crédit Général Ottoman and Banque Austro-Ottoman	Liras 50.000.000	5	48	?	The railways to be constructed and the revenues of the empire in general
1873	General Debt Consolides (second series)	-	£20.229.450	5		£1.001.472	The revenues of the empire in general
1873	Six Per Cents of 1873	Credit Mobilier at Paris, BIO at London, Crédit Général Ottoman	£27.777.780	6	33	£1.944.444	Tithes and sheep tax of various provinces

Osmanlı Arşivi Daire Başkanlığı

قوله شفقته

بوقوع در قاعه بیست و یکم قتل محمد اوزر
سفر خضعت در روز شنبه ۱۲۸۵
نائب رستم در قتل اوزر سربا
بوقوع در قاعه بیست و یکم قتل محمد اوزر
سفر خضعت در روز شنبه ۱۲۸۵
نائب رستم در قتل اوزر سربا



عطوفتد افتم جعفری

انگیزه اردکی طرفه نه سواستورده تنظیم اولوبه مقررأ رجاحتا جلب ايم طرفا شرفه سلطنته سینه ده اشرا اولمشه اولابه بیور بولاک دولمه عیلم
والهائی و تبعیه منافع مستغنی اولورمه برمناب محمد وضع اولئی ارامه سینه جانب معلکات اقتصای جیلینده بولینغه دیوارالده انبر اولورمه بنفیساب بریمور
اشانده لزوم و محنتی دیجیمه ایل ارامه برقیمایه تشکل ایدرک بدوامنا قوشیت اولمشه معاده سینه شایام برطی بیسه طرفونه استقامت قله
ایدکنه بانه کیفیه عقد اولشاه انچه مشورتده دریمیه اولوبه وافا اناطولی سواضده الی معوره و معتبر براسکله قیام نگاه اولابه انبر دیفیساب
بریمور یولیه یالیمشده ملکی و تبعیه فوایدی شاهده اولورمقی شیمه ده و استه اولورده انبر ایلد منفسابک اده سنده بولشاه الکی طرفینک بری طرفون
دیگری انده برایی ساعته زیاده ساف اولوبه انسه اولابه استیمور یول اولوی ایلر یکیم بریمور میل طرفنه اولیشده الی ساعته سادسی اولابه بریمور
کفایت ایدیه برقصه بیک اولوی رضی بولینفی و مذکور انبر بولینک زنده سادسی انبر بری اولینفی عیون سینه تعالیوبه حضرت اهاشم دریمور اولابه اول
بشمه افقنا ایدیه جیت امدانک شارک و علاقه کی محکمانده کوشیمه استیمور یول اولوشانک انبر طرفینک وضع و عقد اولوشی و بولینک مقداریه
بالکشف نزد دولتمعلیم قیامه انیکده مکره همه اعتبارله فایده ایدیه جیت طابعدیه فروضه اولوشه انده برقیمایه تشکل نفسی و انبر در تشکل
ایده جیت تعیبات اعضا سنانک شی استکبری اولینفی عاده برقیمایه بریاض اولوشی مناسب و ضرور اولورمقدور بوشل طرفنه کشفه معاینه بچیمه
مستخرج جلب اولمشه اولابه مشورده اول امر و انبره اعلمیده مذکور الکی طرفینک قنیهست یالیمش اهوره و سرولش اولورمقی و موجودنده بشیمه رها
تحفیه ادوات لانیم اولورمقی دنفده و هرفته تنظیم و کال اولوبه یلیمکی کشفه و تحجیمه انبر بری بیه انصاف مذکور فلسفه البریه نه اهریمیم اولورمقدور ایدیه
بنیاب شیماری شعله کشر فخر و بیور بولر منظومه سینه اندره حرکت سمانه ادریم بری بایته مذکور شادری ترقیم فلسفه اندم ۱۶۱ حالک مس

[illegible]

1. WMS 8/345

Revival of the "Sick Man."

The text of the instructions lately transmitted by the Sultan of Turkey to his Grand Vizier has been made public. It furnishes an instructive example of the wisdom of occasionally revising popular opinions founded on past facts, in order that we may see how far they harmonize with present circumstances. The popular opinion about Turkey is that, whereas she was once famous for barbaric grandeur and military power, she has grown poor and weak without becoming less barbarous, and that, moribund today, she may be nationally extinct to-morrow. If, it is thought, the Turks under the long line of Emperors beginning with OTHMAN were infidel and uncivilized, they were at least rich and strong. The diadem of AMURATH and BAJAZET came down to their successors with increased splendor. The MOHAMMED who took Constantinople, and shattered the Roman Empire of the East, was outshone by SOLYMAN the Magnificent. Yet the grandson and great-grandson of that potentate signalized their ascent of the throne by murdering all their brothers, and this was in a manner typical of the popular notion of Turkey, which, from the time of SHAKESPEARE and "Good Queen BESS," is supposed either to have stood still, or to have "progressed backward."

Partly from old prejudices—for Christendom has not yet quite forgotten the Crusades—partly from imperfect means of information, and partly because it has been to the interests of powerful governments to magnify her defects, and to suggest excuses for her dismemberment, Turkey has not stood high in the esteem of the Western nations; and doubtless, to some extent, has suffered unjustly in consequence. For, after all said and done, the Turks are a fine race. We may prefer the Cross to the Crescent, and yet afford to admit this. From the time those predatory and adventurous Oghusian Tartars set up their tents in Asia Minor, their descendants have shown virtues that many who have hated the Ottoman as heartily as *Othello* might have done well to copy. They have been brave, temperate, faithful to their convictions, and, as a rule, in their private relations, singularly honest and truthful. The commonly received hypothesis is that their indolence, lack of knowledge, and defective sympathy with the spirit of the age are sure to weaken the Turks, relatively to other contiguous peoples, more and more as the years roll on. Now the letter to which we have referred, dictated by ABDUL-AZIZ to his chief Minister, awakens some reasonable doubts on this point.

The Sultan sets out by the statement that he is profoundly anxious to elevate and improve his country by every means in his power. The subject, he says, is constantly in his thoughts, and he is resolved that all his efforts shall tend to promote the prosperity of the Empire, and to develop its wealth, by giving a strong impulse to commerce and industry. He perceives the vast importance, to this end, of multiplying means of communication, and urges the energetic increase and improvement of railroads in a way that, coming from Turkey, sounds almost startling. The existing roads in Roumelia and Anatolia are to be at once completed and then extended. Instant attention is to be paid to the improvement of river navigation throughout the Empire. Suitable steamers are to be procured, as soon as possible, to establish a transport service on such streams as shall be found, by competent engineers, to be navigable. Connections are to be regularly established between the railroads and rivers; and various other suggestions are made, and orders given, looking to the extension of commerce and the augmentation of the national resources. His Majesty has plainly, apart from this question of transit, been making a study of political economy. It is his desire, he affirms, to see "as great a reduction as may be effected in the cost price of the industrial products of Turkey, so as to facilitate the purchase and export which their good qualities will command." To help this on, he has issued orders that capital "in all suitable cases" shall be advanced to manufacturers and merchants, "in order that no encouragement shall be withheld from the different branches of commerce and industry in the Empire."

All this, heralding as it does a powerful impetus for Turkish industry and productiveness, is important and interesting. There is not the least doubt that, with her soil, climate, and other advantages, Turkey can produce and sell to the rest of the world vastly more than she has hitherto done; and this, with the system of internal improvements projected by the Sultan, will enable the Turks to take and pay for a correspondingly greater amount of the products of other nations. In its commercial aspects, therefore, the news of this movement is significant. It is, however, in its social and political aspects, its relation to the great progressive waves of the nineteenth century, that this sign of awakening energy is most striking. A few years ago, the world would have expected such an indication from almost any other quarter, and from al-

most any other person, rather than a Sultan of the Ottoman Empire.