Ottoman State Finances and Fiscal Institutions

in European Perspective, 1500-1800

D R A F T

by Kivanç Karaman * and Şevket Pamuk **

* Bogaziçi (Bosphorus) University, Istanbul

** London School of Economics and Political Science and Bogaziçi (Bosphorus) University, Istanbul

e-mail: s.pamuk@lse.ac.uk
I- Early Modern State Finances in Europe

In early modern Europe, there existed a close relationship between fiscal policies, institutional change and economic growth. States and their fiscal policies played a critical role in the development of economic as well as political institutions, most notably of property rights.

Wars posed the greatest challenge to early modern states. States often waged war and they survived only if they possessed sufficient command over the financial means necessary to defend their territories and citizens against external aggression and to meet internal challenges. Military expenditures dominated state budgets. In the long run, there existed a positive relationship between fiscal resources and a capacity for sustained and effective action in the domestic as well as the international arena. How states were able to prepare for war and how they taxed their citizens had far reaching consequences for the development of economic institutions.

Those states which were able to establish and implement an efficient system of taxation and revenue generation not only enjoyed greater military success but were also able to manage the large fiscal shocks created by the wars. In other words, the connections between fiscal regime and economic institutions as well as economic growth were not simple. Highest rates of economic growth did not necessarily take place in countries with low tax rates and small states.

All European monarchs had to confront powerful obstacles to their will. None was able to raise revenue without negotiation, consultation and sometimes bribery. The power of the so-called absolutist states was not absolute at all. In countries with absolutist regimes, large segments of the economy remained under the control of elites which were able to evade taxes, at least partially. As a result, the absolutist states struggled with inefficient tax systems and had mixed success in raising revenues. They were able to collect a small fraction of the GDP in the form of taxes even if they applied high marginal tax rates to those sectors of the economy they were able to control more closely.

In contrast, parliamentary or representative regimes were able to apply taxes to broader sections of the economy and collect more taxes because the representative bodies helped negotiate and sanction fiscal demands in return for limits on the power of the monarch, especially
during periods of fiscal crises. Tax systems in these countries grew increasingly more powerful and more efficient during the early modern era. By the eighteenth century, tax revenues as percent of GDP were the highest in countries with representative institutions. In the end, representative institutions in the Netherlands and England and not absolute monarchies proved superior in revenue extraction. It is true that these two countries enjoyed stronger and growing economies, yet it would be wrong to reduce the differences to economic strength alone. In fact, recent studies have emphasized that representative institutions was a necessary pre-condition for the emergence of strong states in early modern Europe. ¹

Similar considerations applied to state borrowing which was the basic instrument used by early modern states to finance the fiscal shocks created by the wars. Those states which were able to establish and implement an efficient system of taxation and revenue generation could also better manage their long term debt and did not have to resort to more dramatic measures such as debasements. Fiscally more successful states were able to reduce their debt during periods of peace and establish a permanent system of public debt. Parliaments facilitated state borrowing and reduced the risk premium on state borrowing in Britain after the Glorious Revolution and the Netherlands. Debasements stopped in these countries after the sixteenth century.

States which were not able collect significant amounts of resources through taxation, were forced to borrow larger amounts during periods of war. They also experienced frequent defaults during the early modern era. Debasements were also used for generating revenue during periods

of war in these states. In contrast to the Netherlands and England, France and Spain continued with defaults and debasements until the eighteenth century. 

**Graphs 1, 2 and 3 at the back** summarize our estimates of tax revenues, tax revenues as percent of GDP as well as currency debasements in England, France and Spain during the early modern era.

**Taxes as percent of GDP**

\[
\text{Taxes as percent of GDP} = \frac{\text{Revenues in Tons of Silver}}{\text{Nominal GDP in Tons of Silver}}
\]

**Nominal GDP in Tons of Silver**

\[
\text{Nominal GDP in Tons of Silver} = \text{Coefficient} \times \text{Population} \times \text{Real GDP per capita} \times \text{Price Level in grams silver}
\]

Price Level in grams silver (CPI for Leading Cities from Allen, 2001 and Pamuk, 2000)

**Sources for calculations on European state finances as summarized in Graphs 1, 2 and 3:**

**Britain:** O’Brien and Hunt, 1999; Capie in Bordo and Cortes-Conde (eds.), *The Legacy of Western European Fiscal and Monetary Institutions for the New World, Seventeenth to the Nineteenth Centuries*, 2002.

---


II- The Evolution of Ottoman Fiscal Institutions, 1500-1800

Introduction

For six centuries until World War I, the Ottoman Empire stood at the crossroads of intercontinental trade, stretching from the Balkans and the Black Sea region through Anatolia, Syria, Mesopotamia and the Gulf to Egypt and most of the North African coast. During the seventeenth and eighteenth centuries, its population exceeded 30 million (of which the European provinces accounted for half or more; Anatolia and Istanbul for 7 to 8 million, other Asian and North African provinces for another 7 to 8 million) but it declined thereafter due to territorial losses.

For most of its six-century existence, the Ottoman Empire is best characterized as a bureaucratic, agrarian empire. The economic institutions and policies of this entity were shaped to a large degree by the priorities and interests of a central bureaucracy. Until recently, Ottoman historiography had depicted an empire in decline after the sixteenth century. In contrast, we will argue that the Ottoman state and society were able to adapt to changing circumstances in the early modern era, well before the nineteenth century reforms known as Tanzimat or “re-ordering”. The central bureaucracy managed to contain the many challenges it faced with its pragmatism, flexibility and a readiness to negotiate in order to co-opt and incorporate into the state the social groups that rebelled against it. The Ottoman state also showed considerable flexibility to adapt not only its military
technology but also its fiscal, financial and monetary institutions in response to the changing circumstances.

The Ottomans were familiar with pragmatism and flexibility from the earliest period. Emerging in a highly heterogeneous region populated by Christians and Muslims, Turks and Greeks, the Ottomans’ success in western Anatolia and later in the Balkans during the fourteenth and fifteenth centuries owed much to their willingness and ability to adapt to changing conditions, to utilize talent and accept allegiance from many peoples, and to make many-sided appeals for support. They were thus able attract many followers not only as warriors fighting against the Christians but also Muslims and Christians fighting for the riches to be gained, the positions and power to be won. The Ottomans also displayed remarkable openness to technological innovation and adapted firearms on a greater scale, more effectively and earlier than neighboring states. When expanding the territories under their control, they were prepared to negotiate for the loyalty of local elites. Finally, they proved to be quite adept at learning about and borrowing institutions from others. In short, the early Ottoman enterprise was not a religious state in the making, but rather a pragmatic one.

Ultimately, however, pragmatism and flexibility were utilized by the central bureaucracy for the defense of the existing order and for its own purposes. Institutional change did not apply equally to all areas of Ottoman economic life. Because the central bureaucracy retained its leading position in Ottoman society and politics, the influence of various social groups, not only of landowners but also of merchants, manufacturers and financiers, over economic matters, and more generally over the policies of the central government remained limited until the end of the empire. Many of the key institutions of the Ottoman order such as state ownership of land, urban guilds and restrictions on private capital accumulation remained intact until well into the nineteenth century.

We provide below an overview of long-term changes in the Ottoman fiscal institutions from the sixteenth century until 1850. We examine changing Ottoman strategies in dealing with tax collection, debasements, internal and external borrowing. Ottoman institutions for private and public finance retained their Islamic lineage and remained little influenced by the developments in Europe until the end of the seventeenth century. State finances were in good shape and there was little need for
borrowing during this early period. Ottoman governments continued to rely on tax-farming for both tax collection and short term borrowing purposes as had been the practice of most Islamic states. Unable to check the growing power of the provincial notables, however, the Ottoman state was able to collect only limited amounts of taxes during the seventeenth and eighteenth centuries. Most of the tax revenues collected were retained by various intermediaries. As a result, state finances came under increasing pressure in the seventeenth century and again from the 1770s onwards, especially during periods of war. Fiscally motivated debasements were used rather frequently during these periods. New instruments for public borrowing began to emerge during the eighteenth century in response to fiscal pressures. After the centralizing reforms of the nineteenth century, Istanbul was able to increase the ratio of tax revenues to GDP from about 3 percent to more than 10 percent. Nonetheless, state finances remained under pressure until the end of the empire. State borrowing on European financial markets led to a default in the 1870s and partial control of state finances by European creditors until World War I.

A- Rise of a Centralized State, 1450-1580

During his two reigns totaling thirty years, Mehmed II (1444 and 1451 to 1481) successfully built up an emerging state dependent upon the goodwill and manpower of the rural aristocracy into an expanding empire with a large army and bureaucracy. As a result, the central government began to control a larger share of the resources and revenues at the expense of the provinces. A number of harsh measures were used during this process. In addition to higher taxes, state monopolies were established in such basic commodities as salt, soap and candle wax and their sale to private merchants. Land and other properties in the hands of private owners or pious foundations were confiscated. Policies of forced colonization and tax concessions were used to bring skilled artisans and other immigrants from Anatolia and the Balkans to reconstruct and repopulate the capital city of Istanbul. Finally, very detailed laws were issued to control and regulate the economic life in the leading cities of the empire, Bursa, Edirne and Istanbul. The
degree of interventionism exhibited by the central government in fiscal, economic and monetary affairs during this period was unmatched in later periods.

Revenues increased considerably as a result of these measures. The treasury also benefited from the territorial conquests of the period and the extraction of one-time or annual tributes from vassal states, often paid in gold ducats. Not all of the new revenues were spent immediately, however. Mehmed II believed that a strong treasury brought power and independence to the ruler. The central government thus followed a policy of accumulating large reserves in its treasury. Budget surpluses and accumulation of reserves contributed further to the fiscal strains and shortages of specie experienced by the economy and society at large.³

The reign of Mehmed II was also unique in Ottoman history as a period of frequent currency debasements. The silver content of the akçe had changed very little from the 1320s until the 1440s. During the next four decades, however, debasements were used as regular policy to finance costly military campaigns and expand the role of the central government. Between 1444 and 1481, the silver content of the Ottoman currency was reduced by a total of 30 percent through debasements undertaken roughly every ten years to raise funds for the central treasury. Debasements thus complimented increased taxation and other fiscal measures adopted by Mehmed II to concentrate a greater share of imperial resources at the center, to support the growing needs of an expanding bureaucracy and a central army as well as to finance the military campaigns.⁴

Mehmed's harsh fiscal measures and strong doses of interventionism encountered strong discontent if not opposition, particularly from the ulema who lost control of larges sources of revenue from the pious foundations. Owners of the privately held lands


(mülk) which were expropriated by the state joined the opposition. The nomads, warriors and aristocrats of the frontier areas who had participated in the military campaigns and contributed to their success also opposed to increased centralization and taxation. Nonetheless, Mehmed II continued with these policies until the end of his reign through a combination of increased power at the center and the success of his military campaigns which resulted in considerable territorial expansion and booty for many of the groups involved. Over the long term, the opposition of the janissaries and other groups to periodic debasements contributed to the stability of the akçe. After the death of Mehmed II, his son Bayezid II was forced to seek reconciliation with those groups that his father alienated during his long and forceful reign. He returned the assets of some of the pious foundations and lands expropriated by his father. In addition, he promised to end the policy of debasements. During the following century, akçe returned to the stability it had enjoyed before the reign of Mehmed II with little change in its weight and silver content until 1585.

B- Institutions of Tax Collection and Internal Borrowing during Decentralization, 1580-1780

The evolution of Ottoman fiscal institutions during the seventeenth and eighteenth centuries provides a good example of the ability of the Ottoman state to contain the challenges it faced with pragmatism, flexibility and negotiation in order to co-opt and incorporate into compliance the social groups that challenged its authority. At the same time, however, the rise of provincial groups severely curtailed the ability of the Ottoman government to collect taxes was. Administrative and military weakness went hand in hand with fiscal weakness.

While loans to kings, princes and governments were part of the regular business of European banking houses in the late medieval and early modern periods, in the Islamic world advances of cash to the rulers and the public treasury were handled differently. They took the form of tax-farming arrangements in which individuals possessing liquid capital assets advanced cash to the government in return for the right to farm the taxes
of a given region or fiscal unit for a fixed period. Tax-farming thus dominated the Islamic world from the Mediterranean to the Indian Ocean, from the earliest days through the early modern period.

From the very beginning the Ottomans relied on tax-farming for the collection of urban taxes. Until late in the sixteenth century, however, the agricultural taxes which constituted the largest part of the tax revenues were collected locally and mostly in kind within the timar system. Sipahis, state employees who resided in the rural areas were expected to spend these revenues to equip and prepare a given number of soldiers for military campaigns. Until the second half of the sixteenth century state finances were relatively strong thanks to the revenues obtained through the rapid territorial expansion of the empire and the state did not come under pressure to increase the revenues collected at the centre. There are examples of short-term borrowing by the state during the sixteenth century. These services earned the financiers, mostly Jews and Greeks, the inside track for the most lucrative tax-farming contracts.5

With the changes in military technology during the sixteenth century and the need to maintain larger and permanent armies at the centre, however, pressures increased to collect a larger share of the rural surplus at the centre. As a result, the timar system began to be abandoned in favor of tax-farming and the tax-farms were auctioned off at Istanbul.6 The shift away from the timar system had been designed to increase the cash receipts at the center, but the decline of the state power vis-à-vis the provinces reduced the benefits expected from this change. During the seventeenth century, bureaucrats in the capital and provincial groups began to share tax farming revenues with the central government.

In the longer term, further deterioration of the state finances increased the dependence of the central government on the tax-farming system for the purposes of

5 H. İnalçık, and D. Quataert (eds.), An Economic and Social History, pp. 212-14.
domestic borrowing. The central government began to increase the length of the tax-farming contracts from one to three years to three to five years and even longer. It also demanded an increasingly higher fraction of the auction price of the contract in advance. Tax-farming was thus converted to a form of domestic borrowing with the actual tax revenues being used as collateral by the central government.

In 1695 further steps were taken in the same direction with the introduction of the **malikane** system in which the revenue source began to be farmed out on a life-time basis in return for a large initial payment to be followed by specified flows of annual payments. One rationale often offered for this system was that by extending terms of contracts, the state hoped that tax contractors might take better care of the tax source, most importantly the peasant producers, and try to achieve long term increases in production. In fact, the **malikane** allowed the state to use tax revenues as collateral and borrow on a longer term basis. In comparison to the straightforward tax-farming system, it represented an important shift towards longer term borrowing by the state. The timing of this shift is interesting as it came at a time when the central government was in the midst of an extended period of wars against an alliance of European powers, the Habsburg, Poles and Russians in the west following the unsuccessful siege of Vienna in 1683.

With the extension of terms and the introduction of larger advance payments, long term financing of these contracts assumed an even greater importance. Private financiers thus began to play an increasingly important role in the tax collection process. Behind the individual that bid in the tax-farming auctions, there often existed a partnership including financiers as well as the agents organizing the tax collection process itself often by dividing the initial contract into smaller pieces and finding sub-contractors. Non-Muslims were prohibited from holding most **malikane** contracts but Greeks, Armenians and Jews were very much part of this elite as financiers, brokers and accountants. These arrangements mostly took the form of Islamic business partnership

---

involving both Muslims and non-Muslims. Over the course of the eighteenth century, some 1,000 to 2,000 Istanbul based individuals, together with some 5,000 to 10,000 individuals based in the provinces, as well as innumerable contractors, agents, financiers, accountants and managers came to control an important share of the state’s revenues. These coalitions of Istanbul based elites and the rising elites in the provinces constituted a semi-privatized but interdependent component of the regime. Many provincials were able to acquire and pass from one generation to next small and medium sized malikane shares on villages as long as they retained favour with local administrators or their Istanbul sponsors. For both the well-connected individuals in the capital city and those in the provinces, getting a piece of government tax revenues became an activity more lucrative than investing in agriculture, trade or manufacturing.

These changes in the tax collection and revenue sharing system did not, however, alter the legal basis of land ownership until the nineteenth century. Despite the rise of provincial elites, most agricultural lands remained miri or state land with the peasant households holding the usufruct while the sipahis gave way to tax farmers who were later replaced by malikane owners. State ownership of land combined with usufruct by the peasant household, a key institution of the classical Ottoman order thus remained intact until the modern era.

In the longer term, however, the malikane system did not fulfill the expectations of the central government. It actually led to a decline in state revenues because of the inability of the state to regain control of its revenue sources after the death of the individuals who had purchased them. The central government thus began to experiment with other methods for tax collection and domestic borrowing as state finances came under increasing pressure from the 1770s onwards. After the end of the war of 1768-

---

8 Çizakça, “A Comparative Evolution of Business Partnerships”.

10 Genç, ‘A study of the feasibility’.
1774, which had dramatically exposed the military as well as financial weaknesses of the Ottoman system, the financial bureaucracy instituted a new and related system of long-term domestic borrowing called *esham*. In this system, the annual net revenues of from tax source were specified in nominal terms. This amount was divided into a large number of shares which were then sold to the public for the lifetime of the buyers. The annual revenues of the source continued to be collected by the tax farmers. The *esham* generally sold for six to seven times the annual net payments which remained fixed.\(^{11}\) As the linkage between the annual government payments to *esham* holders and the underlying revenues of the tax source weakened, the *esham* increasingly resembled a life term annuity quite popular in many European countries of the period.

One motivation for the new system was to broaden the base of state borrowing and reach beyond the limited numbers of large financiers who tended to dominate the *malikane* auctions towards a larger pool of small and medium sized lenders. However, the inability of the state to control or limit the sales of the *esham* between individuals and the difficulties in preventing the heirs of the deceased from continuing to receive payments seriously limited the fiscal benefits of this system. During the next half century, the state vacillated between abolishing the *esham* during periods of fiscal stability and expanding it when fiscal pressures mounted and additional funds had to be secured with little regard for their long-term cost.\(^{12}\)

Recent research suggests that western European capital markets experienced a substantial degree of integration during the early modern era. Most international capital flows during this period took the form of lending to private and public borrowers in other countries, not direct investment. These international flows were facilitated by the political and institutional changes taking place in western European countries. As a result of institutional changes and greater integration of capital markets, there occurred from the late medieval to the eighteenth century substantial decreases in and a large degree of convergence of interest rates paid by the western


\(^{12}\) Cezar, Osmanlı Maliyesinde Bunalım, pp. 128-34, 198-200.
European governments. These nominal rates of interest declined from a range of 10 to 20 percent per annum in the fourteenth century to a range of 5-10 percent in the seventeenth and to less than 5 percent in the eighteenth century.\textsuperscript{13}

The Ottoman Empire remained outside the European capital markets network until the second half of the nineteenth century. While the Ottoman government did not consider external borrowing until late in the eighteenth century, it is not clear how much interest there would have been in the western European capital markets to lend to the Ottoman government. In part because it remained outside the western European capital markets network, interest rates in the Ottoman Empire remained significantly higher than those prevailing in western Europe during the seventeenth and eighteenth centuries. Since the Ottoman government used the tax collection process for most of its borrowing as discussed above, it is not easy to identify the rate of interest paid by the state. Nonetheless, one may calculate the implicit rate of interest on the basis of some of the \textit{esham} auctions in the second half of the eighteenth century. Such calculations suggest that, until the middle of the nineteenth century, interest rates at which the state could borrow remained in the 12 to 15 percent range and rose to the 15 to 20 percent range and even higher during periods of distress such as wars or monetary instability.\textsuperscript{14} It appears that the Ottoman government’s inability or unwillingness to commit credibly to repayment put limits to the amounts they could borrow in the domestic markets. While the successful European pattern of public borrowing during wartime was followed by budget surpluses and paying back in peacetime, the Ottomans resorted to debasements whenever borrowing could not meet the state’s financial needs.

The evolution of Ottoman tax collection institutions during the seventeenth and eighteenth centuries illustrates the state's ability and willingness to reorganize as a way of adapting to changing circumstances, albeit slowly and often with considerable time lags. This pragmatism and flexibility also provides important clues for understanding the longevity of the empire as well as the key position of the central bureaucracy until the end. In order to remain at the top, the central bureaucracy was thus willing to share the


\textsuperscript{14} My calculations as presented in Pamuk, \textit{A Monetary History}, pp. 191-2.
tax revenues with the provincial groups during the seventeenth and eighteenth centuries until it was able to re-assert itself in the nineteenth century.

It also appears that the Ottomans were willing to borrow or adapt European fiscal institutions well before the nineteenth century. Despite recent research on the evolution of the Ottoman forms, the causal connections between the evolution of the Ottoman institutions of public finance as outlined here and the evolution of the European institutions of public finance during the seventeenth and eighteenth centuries have not yet been investigated. The parallels between the two are quite striking, however. It is likely that increasing economic and financial integration with Europe after the sixteenth century brought about rapid changes not only in the institutions of private finance but also in those of public finance.  

### III- Evidence from the Ottoman Budgets

The Ottoman state prepared many “ex-post budgets” in the early modern era. These documents itemized and recorded the cash receipts of the central treasury as well as its expenditures. Unfortunately, revenues are designated according to the province of origin in these documents, not according to the type of tax. A recent project has brought together all the of more than 40 such documents that have been located to date in the Ottoman archives. These budgets cover the years 1523 to 1788 and constitute an important primary source for analyzing the Ottoman finances during the early modern era.

---


For each of these budgets, we converted the cash receipts of the central treasury given in millions of current akçes into tons of silver. In addition to the direct cash receipts, a large part of the tax revenues of the Ottoman state were collected in the provinces, in fact, in the villages, by cavalrymen (sipahis) who were appointed by the state under the prebendal timar system. The agricultural tithe collected from the peasants mostly in kind was the most important component of these revenues. The sipahi converted these revenues to cash in order to equip and train soldiers a specified number of soldiers. He then joined the military campaigns together with the soldiers as requested by the Ottoman government. It is estimated that the cash equivalent of the tax revenues collected by the cavalrymen exceeded the cash receipts of the central treasury during the sixteenth century. After the timar system began to be replaced by the central government in the seventeenth century in favor of a larger central army permanently stationed in the capital and other urban areas, the share in total revenues of the government of these revenues collected under the timar system began to decline. We estimate that the share of these and other indirect revenues declined to 40 percent of total revenues of the central government by the end of the eighteenth century. Graphs 5 presents both the cash receipts (T1) and the total revenues including these indirect receipts of the central governments (T2) in tons of silver.

For the purposes of Graph 6 we estimated the GDP of the Ottoman Empire using the same approach we employed for the European economies. We then divided T1 and T2 in tons of silver by total GDP in tons of silver to arrive at the two series of tax revenues, T1 and T2 as percent of total GDP.

**Nominal GDP in Tons of Silver**

\[ \text{Nominal GDP} = \text{Coefficient} \times \text{Population} \times \text{Real GDP per capita (index, Britain, 1820=100)} \times \text{Price Level in grams silver (CPI for Leading Cities from Allen, 2001 and Pamuk, 2000)} \]

**Taxes as percent of GDP**
See Graphs 4, 5 and 6 at the back.

These Graphs make clear the sharp difference between the western European governments and the Ottoman government during the seventeenth and especially the eighteenth centuries. Even though the Ottoman economy was not doing very badly in relation to other western European economies, the tax receipts of the Ottoman state lagged well behind those of other European states in our sample. As the earlier discussion on the Ottoman fiscal institutions suggested, Ottoman state was too weak to be able to collect taxes at levels comparable to those of western European states in the seventeenth and eighteenth centuries. One of the consequences was the willingness to use debasements as a fiscal instrument more frequently.

IV- Absence of a “Deal” and its consequences

The Ottoman central government was forced to share its tax revenues with the ayan or the notables from the provinces during the seventeenth and eighteenth centuries. Estimates suggest that the ayan actually retained more than they sent to Istanbul.

It would be important to explore the reasons why the central government and the ayan were not able to reach an agreement that might have allowed the central government a higher share of the tax revenues in return for greater recognition of the powers of the ayan and more explicit limits on the powers of the central government. For such an agreement, the ayan needed to act collectively and effectively, but they suffered from coordination problems. As a result, despite substantially lower tax revenues and reduced military and administrative powers, the central government was able to benefit from the local and regional rivalries amongst the ayan families and play one against the other. Without collective action, most ayan refrained from individual initiatives that would place them directly in conflict against the central government. All the ayan needed the legitimation Istanbul provided them by recognizing them as tax collectors for the central government.
It would also be worth exploring the impact of lower central government revenues on the economy and on economic institutions. Fiscally successful European states did not allocate large resources towards economic development, through infrastructure investment, for example, during the early modern era. However, they did create an macroeconomic and institutional environment favorable to economic development, at least not unfavorable to economic development.

On the other hand, states which were not able to manage their finances well created unfavorable consequences for the economy and economic institutions.

Large public debt, frequent defaults and frequent debasements led to an macroeconomic environment unfavorable for long term economic development.

Moreover, the fiscal difficulties of the Ottoman state forced it to employ practices such as:

- extraordinary taxes
- exporopriations of the wealth of former state officials but not of merchants
- fiscally motivated monopolies in international trade

Most important, perhaps, was the decline in internal security as well as external security due to the fiscal difficulties of the government.

All of these led to the deterioration of the institutional environment during the seventeenth and eighteenth centuries.

V- Epilogue: Modern Reforms and Fiscal Centralization, 1780-1914

Summary: Due to the fiscal pressures arising from wars and attempts to establish a new army, Ottoman debasements continued and even accelerated in the early 19th century in sharp contrast to France and Spain (which have abandoned debasementst in the eighteenth century) as well as Britain and Netherlands (which had abandoned them in the sixteenth century).

See Graph 7 at the back.
On the other hand, the nineteenth century Ottoman reforms and the accompanying centralization process enabled the central government to increase significantly its tax revenues both in absolute terms and as a percentage of GDP. These increases in revenues came not because of increases in tax rates but due to the decline in revenues retained by the provincial tax collectors. These large increases in revenues came too late, however, to keep the empire together.

**See Graph 8 at the back.**

The reign of sultan Mahmud II (1808-1839) was a particularly difficult period for the empire and the central government. During these three decades the government was forced to deal with a series of uprisings, nationalist revolutions and wars abroad. While it was able to suppress the various uprisings of notables in both the Balkans and Anatolia, the Serbian and Greek revolutions led to the secessions of these territories from the empire. Much more costly to the state finances than any of these was a series of wars against Russia (1806-1812 and 1828-29), Iran (1820-28) and Egypt (1831-33 and 1838-39).

This was also a critical period for Western style, centralizing reforms. Attempts at military reform had begun earlier, during the reign of Selim III (1789-1807), but progress had been limited due to the opposition of the janissaries. These efforts gained momentum after the abolition of the janissaries in 1826. As the size of the new army (Nizam-i Cedid) rose from a mere 2,000 around the turn of the century to 120,000 in the late 1830s, pressures on state finances increased. Roughly speaking, about half of the budget expenditures were allocated for military spending from the late eighteenth until the 1840s; this share was considerably higher during periods of war.

Another important and difficult task was the reorganization and modernization of the bureaucracy. The strategy of the reformist and centralizing sultan Mahmud II (1808-1839) was to eliminate the intermediate authorities both in the capital and the provinces.

---


18 Cezar, *Osmanlı Maliyesinde Bunalım*, pp. 244-80.
As the reform movement began to spread beyond the military arena in the 1820s, to administration, justice, and education, however, the demands for resources increased as well. Precise budget figures do not exist, but recent estimates suggest that after adjusting for inflation, the expenditures of the central government increased by 250 to 300 percent, from about 18 million current kurush or 2 million ducats at the end of the eighteenth century to about 400 million current kurush or 7 million ducats at the end of the 1830s. To deal with changes of such magnitudes constituted a financial task of enormous proportions for the central government. As a result, one of the key goals of the reform process was the re-organization of state finances and greater centralization of the revenues. As part of these efforts the multi-treasuries and budgets of the earlier era were gradually dissolved for the single budget system.  

These increases in revenue were not sufficient to meet the rising expenditures, however. From the 1770s until the 1840s the Ottoman state finances frequently experienced large budget deficits. These deficits reached their peak during the 1820s and 1830s. In response, the state attempted to increase control over revenue sources, made use of various forms of internal borrowing, and when the short term fiscal pressures mounted, resorted to debasements. The highest rates of debasement in Ottoman history took place during the reign of the centralizing and reformist sultan Mahmud II. The silver content of the Ottoman kurush or piaster declined by more than 80 percent from 1808 to 1844. Closely paralleling the debasement of the currency was the sharp fall in its exchange rate and the rapid rise in the general price level. The exchange rate of the kurush against the British pound sterling declined from 18 kurush per pound in 1808 to 110 kurush per pound in 1844. Indices constructed from the account books of the imperial kitchen and the account books of the pious foundations at Istanbul show that food prices increased more than 5 fold during the same period.

In the longer term, centralization helped the government raise its revenues at the expense of the previously powerful groups in the provinces. Beginning in the 1820s, the central government began to undermine the powerful alliance between the high level
bureaucrats and financiers in the capital and the notables in the provinces. As a result, it was able to exert greater control over the tax collection process and increase the revenues collected at the center roughly from 2 to 3 percent of GDP in the 1770s to 5 to 6 percent in the 1840s and to more than 12 percent on the eve of World War I. If greater share of the central government in economic resources can be taken as an indicator of modernization, these efforts can indeed be interpreted as the modernization of Ottoman state finances. Nonetheless, due to the costs military and administrative reform, the expenditures continued to rise at a faster pace. For this reason, the government was forced to devote a large part of its energies, from the late eighteenth century until the 1840s, towards developing new methods of long-term internal borrowing.

Around mid-century, the financing of the budget deficits reached a new phase. Under the fiscal pressures created by the Crimean War, the Ottoman government began to borrow in the European financial markets in 1854. After two decades of rapid borrowing the proceeds of which were used mostly for military expenditures, the government was forced to declare a moratorium in debt payments in 1876. After a prolonged period of negotiations and in return for a 50 percent reduction on the outstanding nominal debt, the government agreed in 1881 to cede large segments of its revenue sources to the Ottoman Public Debt Administration to be developed for the purposes of future debt payments. The Ottoman Public Debt Administration remained in place until World War I.

VI- Conclusion

For most of its 600-year existence, the Ottoman Empire is best characterized as a bureaucratic, agrarian empire. The economic institutions and policies of this large entity were shaped to a large degree by the priorities and interests of its central bureaucracy. The influence of various social groups, not only of landowners but also of merchants and moneychangers, over the policies of the central government remained limited. Key economic institutions of the Ottoman order such as state ownership of land, guilds, urban provisioning and selective interventionism remained mostly intact during this period. Pragmatism, flexibility, willingness to negotiate, ability to adapt their institutions to changing circumstances were traits that enabled the Ottomans to keep the
empire together until the nineteenth century. Ultimately, however, pragmatism and flexibility was utilized by the central bureaucracy for the defense of the existing order and of its own position.

This paper examined the long term changes in the Ottoman fiscal institutions in the early modern era from this perspective of pragmatism, flexibility and selective institutional change. It focused on the changing Ottoman strategies and institutions in dealing with tax collection, debasements and internal borrowing. The evolution of Ottoman fiscal institutions and the fiscal behavior of the Ottoman state were not very different from those of many of the European states during the seventeenth and eighteenth centuries. Ottoman institutions of private and public finance retained their Islamic lineage and remained little influenced by the developments in Europe until the end of the seventeenth century. During this period the Ottoman government continued to rely on tax-farming for both tax collection and short term borrowing purposes as had been the practice of most Islamic states. As fiscal pressures mounted in the eighteenth century, the Ottomans began to experiment more forcefully with new institutions of tax collection and domestic borrowing.

In early modern Europe a successful state could be recognized not merely by its continuity but because it mobilized the resources required for effective action in international relations as well as the force needed to meet domestic challenges to its authority. Our comparison of the tax revenues indicate that one important difference between the Ottomans and the western European states was the political and administrative power of the central government. In the seventeenth and eighteenth centuries, the Ottoman state was not strong but weak; it was forced to share its tax revenues with various intermediaries, both in the capital and the provinces. As a result, state finances came under a good deal of pressure, especially during periods of war. Fiscally motivated debasements were used frequently during this period and created a good deal of macroeconomic instability especially in the late eighteenth and early nineteenth centuries.

States which were not able to manage their finances well created unfavorable consequences not only for the economy but also for economic institutions. The fiscal difficulties of the Ottoman state forced it to employ practices such as extraordinary taxes, expropriations of the wealth of former government officials and fiscally motivated monopolies on international trade. Most
important, perhaps, was the decline in internal security as well as external security due to the fiscal difficulties of the government. These developments led to a marked deterioration in the institutional environment.
Graph 1B: Revenues of the Central Governments in tons of silver

- England
- France
- Spain
Graph 2: Government Revenues as percent of GDP
Graph 3B: Silver Content of the Currency, 1600=100
Graph 4A: Revenues of the Ottoman Government in tons of silver
Graph 5: Government Revenues as percent of GDP

- England-Britain
- France
- Spain
- Ottoman 1
- Ottoman 2
Graph 6A: Silver Content of the Currency, 1500=100

- Britain
- Netherlands
- Spain
- France
- Ottoman
- Russia
Graph 7: Silver Content of the Ottoman Currency, 1469-1914
in grams
Graph 8A: Revenues of the Ottoman Government in Tons of Silver, 1523-1914