Ottoman Financial Integration with Europe: Foreign Loans, the Ottoman Bank and the Ottoman Public Debt

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Between 1854 and 1881, the Ottoman Empire went through one of the most critical phases of the history of its relations with European powers. Beginning with the first foreign loan contracted in 1854, this process was initially dominated by a modest level of indebtedness, coupled with sporadic and inconsequential attempts by western powers to impose some control over the viability of the operation. From 1863 on began a second and much more intense phase, which eventually led to a snowballing effect of accumulated debts. The formal bankruptcy of the Empire in 1875 resulted in the collapse of the entire system in one of the most spectacular financial crashes of the period. It was only six years later, in 1881, that a solution was found in the establishment of the Ottoman Public Debt Administration that would control a large portion of state revenues. The new system restored the financial stability of the Empire, but profoundly modified its *rapports de force* with Europe by imposing on it a form of foreign control that would have been unthinkable only ten or twenty years earlier. While bringing a much-needed stability to the flailing Ottoman financial situation and thus opening the way to economic development, the new system also radically changed the very nature of the process of integration, by introducing an imperialist dimension that had lacked in the previous decades.

1. Introduction

The notion of an Ottoman integration with Europe is certainly a very flexible and tricky one, which can be stretched in all directions according to one's point of view. Some will rightly speak of an already ongoing process as early as the fifteenth and sixteenth centuries, in the context of the rise of the Ottoman state as a Mediterranean power and the intensification of its relations with Genoa, Venice, France, or the Habsburg monarchy. Defendable as it is, such a vision bears a risk of anachronism due to the rather peculiar context of the period, especially with respect to the definition of Europe, certainly very different from what it would become from the eighteenth century on. The importance ascribed to the western-inspired reforms of the eighteenth century may also have been rather overstated, especially when compared to the much more decisive steps taken at the end of the century with respect to the partial integration of the Empire into the European state system. Yet, even then, or during the initial phase of the *Tanzimat* movement (1839), although European influence has proved to be of ever-increasing importance in determining the fate of the Empire and its transformations, one could argue that the most decisive turning point in this long process of coexistence and gradual *rapprochement*, was probably the 1850s, when the trend initiated in earlier decades was explicitly confirmed, with an avowed aim of Ottoman integration into the European world.

Politically speaking, the Crimean War was certainly one of the most decisive events that signaled a new turn in the complex relations between the Empire and Europe. The participation of the two most powerful nations of the time in the defense of the Ottoman Empire against Russia was in itself a major and most symbolic event, as the Ottomans suddenly found themselves in the rather unusual position of a western territory under the menace of an eastern invasion. This rather novel situation was openly expressed in much of the propaganda material of the time. A medal struck in Brussels to mourn the annihilation of the Ottoman fleet by the Russians in the port of Sinop bore a striking motto, unthinkable only a few decades earlier: "*Europe, ils sont morts pour toi*"; the victory of allied troops the following year on the Danubian front was celebrated in similar fashion on a medal from the same series: "*Europe, ils ont vaincu pour toi*".[1] The following year, upon receiving the *Légion d'honneur* from the hands of the French ambassador, Sultan Abdülmecid expressed his ardent desire to see his Empire admitted 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 universe that it is worthy of a prominent place in the concert of civilized nations.[2]

One should not be surprised, therefore, to see that the famous Reform Decree (*Islahat Fermanı*) was issued on February 18, 1856, a little more than a month before the signing of the Paris Peace Treaty that was to put an end to the Crimean War. By issuing this decree, Sultan Abdülmecid was officially confirming his intention to join the Concert of Europe. He was doing so by introducing a number of reforms, most of which reaffirmed the major principles of the *Tanzimat* Decree of 1839, and brought greater clarity to some of its statements, such as the equality of all subjects before the law, regardless of religion. This decisive step had been a prerequisite for the Paris Treaty and the guarantee extended by the Great Powers to the territorial integrity of the Empire. By pledging alliance to the western system and its values, the Ottoman Empire had obtained formal recognition as a legitimate member of the Concert of Europe. Yet, it was clear that this recognition was not without ambiguity. The simple fact that the Empire's integrity was placed under western guarantee and that its accession to Europe was made conditional on the application of the principles of the Reform Decree were sufficient clues to the real nature of the treaty. Integration, if it ever happened, was to be realized on western terms, and would entail the right of the Great Powers to interfere in the internal matters of the Empire for the safeguard of the reforms, particularly the protection of non-Muslims.[3] In short, rather than a real actor within Europe, the Ottoman Empire was viewed as a passive extension of the system that needed encouragement, monitoring and, eventually, control.

2. The First Steps toward Financial Integration

The process of integration initiated in 1856 was mostly of a political nature; in that sense it differed from the *Tanzimat* movement mostly in its intensity and in the adoption of a much more explicit attitude on both sides. Yet in some respects, the Reform Decree of 1856 signaled the introduction of totally novel dimensions that had been to a large extent ignored or neglected previously. Most striking among these was that of financial reform, as illustrated by a short section of the decree:

> [...] 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. [...] 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.[4]

True, the intention stated in the decree was extremely vague, and could hardly have been associated with a conscious program of financial reform. Nor was this intention really taken up by the Paris Treaty other than through the wholesale adoption of the principles of the Reform Decree as a *sine qua non* of its application. Yet, viewed from the perspective of the three decades of reform that had preceded, the simple mention of financial reform based on European support, vague as it may have been, was a striking departure from previous policies. Indeed, if one considers the Janissary purge of 1826 to have constituted a starting point for reform, soon followed by military, administrative, and sartorial transformations, it is rather striking that economic and financial reform had lagged behind the initial momentum of change. The first novelty in the field had been the introduction of paper-money (*kaime-i mutebere-i nakdiye* or *kaime*) in 1839, followed by the adoption of a bi-metallic decimal standard in 1844 and the establishment of a foreign currency regulating agency in 1845 (the *Banque de Constantinople* as it was named after 1847). However, each of these measures had proved highly inefficient, mainly due to the fact that most of these innovations had remained at the level of —often contradicting— half-measures: the uncontrolled issue of paper-money had led to a disastrous depreciation of the *kaime*s while at the same time adding to the monetary chaos of the period; the 1844 monetary reform had been unable to eradicate the circulation of altered currency; and the *Banque de Constantinople* had been forced into bankruptcy by the government's demand for cash advances which the insufficient capital basis and local resources of the bank had been unable to meet.[5]

Clearly then, the decision to include a reference to the need for an "*alla franca*" financial reform in the text of the Reform Decree meant more than just a rhetorical exercise adapted to the general context of the document. To Ottoman statesmen, it had by then become clear that the correction and stabilization of the critical financial and monetary situation could no longer be attained through the adoption of local measures and the mobilization of internal resources. Moreover, there was a serious and very concrete incentive to promote a western-oriented program of financial mobilization. During the Crimean War, aside from a predictable attempt at financing the war through new issues of *kaime*s, the Ottoman Empire had been able to contract two major foreign loans, which constituted a remarkable departure from previous practice. Indeed, this was the very first time that the Ottoman State resorted to foreign credit. The 1854 and 1855 loans of £ 3,000,000 and £ 5,000,000 organized by Dent, Palmers & Co. and the Rothschilds of London, respectively, had thus constituted the starting point of a long series of loans contracted on the European markets. The conditions under which these loans had been contracted were exceptionally favorable. The 1854 loan had been issued at the rate of 80 percent, and an interest rate of 6 percent; the 1855 loan had been contracted at even higher an issue rate, above par at 102.6 percent, and at only 4 percent interest. Obviously, these advantageous conditions had been dictated by the political context of the time, with an avowed desire of Britain and France to finance their ally. Thus, apart from the fact that the Ottoman state had pledged one of its most solid revenues, the Egyptian taxes, as a backing for these loans, the first operation had benefited from British support, while the interest payments on the second were jointly guaranteed by the British and French governments.

With such a positive start in a new type of financial operations, one can easily understand the enthusiasm of the Ottoman palace and bureaucrats. Money was coming in at a much lower cost than when lent by local bankers; the temptation was strong to base the future of the Empire on the attractive prospect of a series of loans. Moreover, to a government that had decided to tie its destiny to a gradual process of integration with the West, it could easily be claimed that financial operations of this sort were bound to act as the cement of a future collaboration.

Yet, what was not yet clear were the political implications of this new process. On the European, or lending, side of the picture, the main concern was to ensure the stability and productivity of the loans. This, in turn, entailed a form of guarantee that, on the one hand, the proceeds would not be dilapidated, and on the other, that the debt itself, including its interests, would be paid back regularly. From the very start, the latter concern was mostly met by an effort to ensure the quality of the revenues pledged against the debt. By selecting prime revenues—defined in terms of their regularity and reliability—as a backing for the loans, any risk of default was to a large extent avoided. Moreover, the sums involved in this initial stage were still relatively modest in comparison to the overall revenues of the state. Western efforts were therefore mostly directed at monitoring the way in which the funds obtained from the loans were spent. Indeed, at a time when most of the western public was convinced of the immense—and unexploited—economic potential of the Empire, the main apprehension had to do with the supposed penchant of the Sultan and his administration to spend lavishly and irresponsibly on useless and unproductive projects, generally illustrated by Sultan Abdülmecid's passion for building palaces along the shores of the Bosphorus. As a result, the 1855 loan had been accompanied by the setting up of a Franco-British commission empowered with the control of expenditures and the verification of Treasury accounts. Although the government was to a large extent able to render the commission's work highly ineffective, an example had been set for a form of foreign control over Ottoman finances.[6]

The following years clearly showed the possible shortcomings of the system. In 1858, when a third loan to the amount of £ 5,000,000 was contracted, the issue rate had slightly dropped to 76 percent, and the interest had risen to 6 percent. The difference was minimal, and mostly due to the fact that, contrary to the preceding one, this loan had not been guaranteed or supported by western governments. Yet, what was more serious was that despite the fact that the proceeds of this first peacetime loan had been intended for the redemption of paper money, the government failed to realize this objective of crucial importance. Interestingly, this half failure was followed in 1859-1860 by a number of foreign schemes designed to establish a firm control over Ottoman finances; all were abandoned, however, partly due to Ottoman reluctance and to dissension among European powers, and partly to a continued optimism with respect to the potential resources of the Empire.[7] The result was, however, that the Empire, in dire need of funds due to a tense political and military situation, was unable to attract European investors into a new loan scheme to alleviate its financial distress.[8]

Ironically, the hope that emerged at the end of 1860 of securing a loan through the mediation of the French financier Mirès proved to be the cause of an even more serious crisis. Mirès' proposal reflected the severe loss of creditworthiness of the Empire: £ 16,000,000 at an all-time low rate of issue of 53.75 percent and an effective interest rate of over 14 percent. The real tragedy, however, took place when the French financial wizard soon proved to be unable to mobilize investors in sufficient numbers and was then arrested on accusations of irregularities. The bubble burst, causing a dramatic destabilization of the Ottoman market, with exchanges soaring to almost double their previous level. Alarm spread throughout western markets, and the British government set up an advisory financial commission to help the Ottoman government overcome the crisis. The word had started to spread that simple monitoring of Ottoman finances would no longer suffice to guarantee the survival of the Empire and that what was really needed was to place it under direct European control.[9] Only six years after its first loan, the Ottoman Empire had come to a point where it seemed doomed to lose its financial and political autonomy.

3. The Imperial Ottoman Bank and Hopes of Financial Stability

Despite the intensity of the crisis caused by the Mirès 'scandal' and its sequels in 1861, the Ottoman Empire showed a rather remarkable capacity to redress what seemed a desperate situation. The conjuncture was partly responsible for this upturn: Sultan Abdülmecid had died in June, 1861, and was succeeded by his brother Abdülaziz, presented as being at the antipodes of his spendthrift predecessor; the grand vizierate was now held by the energetic Fuad Pasha, who presented a formal budget in early 1862; most of all, the British commission had drafted a positive and encouraging report on the situation of the Empire. This favorable context had made it possible to organize a new loan to the amount of £ 8,000,000, issued at 68 percent, and bearing 6 percent interest, with the firm intention of redeeming once and for all the paper money in circulation. The operation was a success and brought back confidence to both the local and international markets.[10]

Beyond the practical aspect of a successful purge of the paper money stock, the 1862 loan had another major consequence on the future evolution of Ottoman finance. Behind this operation stood two institutions, Deveaux and Co. of London and, more importantly, the Ottoman Bank. The Ottoman

Bank had been established in 1856, shortly after the promulgation of the Reform Decree. In that sense, the new institution could claim that it was responding to the Ottoman Sultan's desire, as expressed in his decree, that "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." However, the modest dimensions of the enterprise and the initial reluctance of its founders and shareholders to engage in risky 'state business' certainly limited its ability to actually fulfil such functions. A small London-based British private bank, the Ottoman Bank had already enough trouble trying to survive as a commercial bank in a hostile environment still dominated by local financiers and bankers. Yet soon enough, thanks to increasing profits and to a number of advances to the government, the bank had been able to gain both visibility and credibility on the Ottoman market. By 1862, at a time when it had become clear that the government intended to grant a concession to a future state bank, and that a number of financial groups, both local and foreign, had started competing for this privilege, the Ottoman Bank invested much effort in gaining the government's trust by organizing the 1862 loan. The bank's gambit paid off, as the Ottoman government finally decided in favour of this particular institution against all others, with, however, the provision that its capital basis be modified by the inclusion of French capital to the amount of the existing British capital. Fuad Pasha's plan was simple and sensible: the prospect of having a foreign state bank was worrying enough, but practically unavoidable; however, dividing its capital between the French and the British was likely to minimize the risk of being completely ruled by the British alone.[11]

The Ottoman Bank was thus transformed in early 1863 into the Imperial Ottoman Bank, in a rather significant step towards an additional channel of integration into the European financial markets. Yet, contrary to what some might have expected or hoped, it soon became clear that the bank's leverage on the government would be rather limited. It had obtained a privilege to issue banknotes, which it would use only very timidly; it had no participation in, and therefore no control over, the decision-making circles of the financial administration; in short, apart from a partial role of cashier of the Empire and a right (often overridden) of pre-emption in the organization of foreign loans, the Imperial Ottoman Bank was far from constituting an efficient control mechanism over state finances. Nevertheless, in many regards, the mere presence of this institution in a country that had lacked any permanent and formal representation of western financial interests was sufficient to give a sense of security to European investors, already reassured by the success of the 1862 loan. At any rate, for some time at least, the bank was able to fulfil its role as a broker and mediator of foreign loans: it organized two six-percent loans in 1863 and 1865, of £ 8,000,000 and £ 6,000,000 at 71 and 66 percent issue rates, respectively.[12]

Although the terms of these loans were, overall, favorable to the Ottoman government, they nevertheless signaled a gradual shift of Ottoman indebtedness toward a rather sterile and self-defeating pattern. Contrary to the Crimean War loans, which had been earmarked for military expenditure, or to the 1862 loan, efficiently used for the redemption of paper money, these financial operations had been essentially directed at financing the budget deficit and, most of all, at paying the coupons on previous loans. In other words, the Ottoman government showed the first signs of being trapped in a vicious circle of debt, whereby the greater part of the proceeds of its loans were siphoned into the payment of outstanding foreign and domestic debts. In the case of the latter, it was striking that by and large the government had been unable of putting an end to short-term borrowing from local bankers, often at prohibitive interest rates. As a result, much of the painfully negotiated foreign loans ended up amounting to a debt transfer from local to foreign creditors. What made matters worse was that there was little, if any, real incentive in the direction of putting an end to this unhealthy situation. The Ottoman government, constantly squeezed by its financial needs, found it expedient to follow this risky form of debt management. More importantly, however, it was clear that western investors had no intention of shying away from the lucrative revenues of 'Turkish' bonds. Both sides were therefore eager to continue on the same path, all the more so since the situation was not yet as alarming as it might have looked with hindsight. After all, the integration of Ottoman finances with the European markets was a highly desirable development, rendered all the more attractive by the reassuring presence of the Imperial Ottoman Bank, Ottoman enough to be trusted in its analysis of local conditions, but at the same time foreign enough to be counted on to ward off any danger that may be befall on European investments.

4. Towards Bankruptcy

In actual fact, the position of the Imperial Ottoman Bank was much more complex, and in some ways much more awkward, than it seemed at first sight. Privileged as it may have been, it lacked any real control over the Ottoman budget. Moreover, doubts could (and often were) expressed as to its ultimate goals and priorities. With the undeniable profile of a profit-oriented private bank, it was suspected by some circles of aiming at a monopoly over Ottoman loans with no other concern than the advantages and commissions it could derive from its role as an official agent for the government on international financial markets, thus blocking potential competitors from a share in the profits that could be accrued from an 'emerging' market. From an Ottoman perspective, the institution was suspect due to its organic links to, and control by, London and Paris, and was perceived as a potential threat to the Empire's financial autonomy, and by extension, to its political independence. In reality, it appears that the bank's policy was inspired much less by short-term greed than by a long-term vision of Ottoman financial stability and economic development as the only viable guarantee for its own survival. This cautious stand justified a rather conservative attitude which required some control over Ottoman financial decisions and over the injection of capital through foreign loans. Yet, both objectives were the very cause for the Ottoman Bank's incapacity to ingratiate itself with either side throughout the process. The Ottoman government did all its possible to keep it at bay, while European financiers looked for ways of circumventing its statutory right of pre-emption over foreign loans. The two effects combined resulted in a gradual estrangement and marginalization of the institution from its supposed role.[13]

Indeed, a series of loans contracted from 1865 on systematically bypassed the Imperial Ottoman Bank and thus constituted a rather clear departure from the more cautious attitude observed previously. What these loans had in common was that they essentially met the demands of the Ottoman government, on the one hand, and of western rivals of the bank, on the other. Concretely, what characterized them were a sudden leap in their nominal value and a very clear drop in the issue rates. The 1865 loan, organized by the General Credit for the conversion of the General Debt, amounted to £ 32,900,000 at 60 percent; the 1869 loan, organized by the Comptoir d'escompte totaled £ 22,000,000 at 57 percent; and the 1870 loan—the 'lottery loan'—was issued by Baron Hirsch to the amount of £ 31,680,000 at 32.125 percent.[14] In five years, the Ottoman government had contracted a debt of over £ 86,000,000, corresponding to 2.3 times the sums borrowed in the previous eleven years. Due to low rates of issue, only £ 41,900,000 or a little less than half of the nominal value had been cashed in by the Treasury, most of it to convert or redeem previous debts. The same proportion had been 70 percent for the preceding decade. Nor was this the end of it; between 1871 and 1874, five new loans were signed totaling a nominal value of £ 98,530,000 and an effective injection into the Treasury of £ 49,190,000. By the end of this process, the annual charges on the foreign debt, which formerly stood at approximately £ 2,250,000 in 1865, had increased to £ 12,000,000. With an estimated £ 22,000,000 of annual revenues, the Empire had come to a point where 55 percent of its budget was absorbed by the foreign debt.[15]

In the meantime, the relations between the government and the Imperial Ottoman Bank had started to ameliorate. In May, 1874, an agreement was even signed in Paris between the bank and Sadık Pasha, which foresaw an extension of the institution's power within the Empire, especially with respect to the monitoring of revenues and expenditures. A few months later, the bank was able to organize a £ 40,000,000 loan, which, although issued at the very low rate of 40 percent had the undeniable merit of a very successful and rapid placement in western financial markets. The following year, in February, the Paris agreement was ratified by Imperial decree. The terms of the agreement, which had initially granted great leverage to the bank with respect to the control of Ottoman finances, were somewhat watered down, but the essence of the text still rested on the idea of a supervision of the state budget by the bank.[16] In other words, after a long interruption of any form of foreign control over Ottoman finances, the government had been finally made to agree to harsher conditions that might help restore western public confidence in Ottoman bonds. Ironically, however, before the terms of the agreement could be put into effect, the Ottoman government reached a point of insolvency that precipitated the impending collapse of the whole system. The appointment of Mahmud Nedim Pasha to the grand vizierate in August, 1875, was the starting point of the crisis which culminated in the decree issued on October 6, declaring that the payment on the coupons would be reduced by half. By March, 1876, payments had ceased altogether on most bonds, turning the 'half-default' of October into a formal bankruptcy. Some twenty years after the first foreign loan, Ottoman creditworthiness had been wiped out almost overnight. The financial disaster was coupled with an equally catastrophic political situation. Insurrections in the Balkans had been followed by the deposition of Sultan Abdülaziz and a declaration of war by Serbia. A wind of panic swept over the European markets as bondholders realized that the Empire they had invested in was most likely about to collapse.

5. The Ultimate Integration: The Ottoman Public Debt

From the default of October 6, 1875, to the establishment of the Ottoman Public Debt Administration on December 20, 1881, the Ottoman Empire went through one of the gloomiest periods of its history. The political situation rapidly worsened: Abdülaziz's successor, Murad V, mentally collapsed under the pressure of the events and had to be removed from the throne only three months after his accession. His brother and successor, Abdülhamid II, inherited a rather desperate situation with the Empire at war against Serbia and Montenegro, and the impending threat of a Russian aggression. Despite an attempt at ingratiating himself with both domestic liberals and the Great Powers by promulgating a constitution in December, 1876, the new Sultan failed to alleviate the situation. The Russian threat became a reality in April, 1877, and resulted in the utter defeat of the Empire by the end of January, 1878. Saved from the humiliating clauses of a peace treaty signed with Russia by the Congress of Berlin, instigated by western powers, the Ottoman Empire was nevertheless reduced to the status of a minor power at the mercy of European politics.

Financially speaking, the consequences of the bankruptcy of 1875 were harshly felt in every aspect of the Empire's administration. The war effort was squeezing every piaster out of the Treasury, and the government was incapable of meeting its most basic financial requirements, including salaries to civil servants or to officers. Organizing a foreign loan was strictly impossible under these conditions, and even the Imperial Ottoman Bank had refused to grant the government an advance of £T 2,000,000 upon instructions received from the London and Paris committees. The desperation in which the government found itself forced it to resort once again to paper-money, despite the provisions of the Imperial Ottoman Bank concession that forbade them from doing so. Derogation was obtained from the institution, and an initial sum of 300,000,000 piastres was issued between mid-August and late-December, 1876. Soon enough, two additional issues of 700,000,000 and 600,000,000 piastres were agreed upon, thus bringing the total issue to 1,800,000,000 piastres, causing a predictable depreciation of the paper currency of about 65 percent at the end of two years. By the time redemption was well under way, in 1880, the *kaime*s had dropped to 10 to 15 percent of their original value.[17]

Under these dramatic circumstances, it was clear that the Empire would not survive unless some solution was found to the crisis created by the bankruptcy of 1875. The Imperial Ottoman Bank, loyal to its role of a state bank, managed to secure a £ 5,000,000 loan—the Defense Loan—to contribute to the war effort. More importantly, it mobilized its own resources in order to provide the Treasury with much-needed short-term advances. In the late 1870s, the proportion of advances to the government to the total of advances lent out by the bank had soared to nearly 90 percent; in other words, the Ottoman Bank was channeling most of the resources it could have used on the market to satisfy the desperate needs of the government. True, the interest rates on these advances clearly reflected the risk taken by the institution, but it nevertheless signified its willingness to sacrifice its commercial activities for the sake of keeping the Treasury afloat in these hard times.[18]

Yet none of these short-term palliative measures would really solve the protracted crisis caused by the 1875 default. In this respect, too, the Imperial Ottoman Bank took upon itself to find a satisfactory settlement. The government was still hesitant to engage in a formal solution of the foreign debt, most of which was constituted of long-term loans. Much more pressing was the need to solve the problem of outstanding short-term local debts, including the bank's, in order to avoid the shutting down of the doors of local financial institutions. In November, 1879, an agreement was finally reached between the government and its local creditors, whereby the state would surrender its indirect revenues from the stamp, spirits, fishing taxes, silk tithe, and salt and tobacco monopolies. The Administration of the Six

Indirect Contributions thus constituted would be managed by representatives of the Ottoman Bank and other local creditors. To the surprise of most observers, the arrangement proved to be a success, and proceeds soon proved to be sufficient to meet the charges of the internal debt. This success, however, ended up creating a feeling of frustration among foreign bondholders, who felt left out of a successful deal. Pressuring their governments, they obtained that negotiations be opened for the settlement of the larger question of the foreign debt. The negotiations started in October, 1880, and eventually led to the signing of the *Muharrem* Decree, on December 20, 1881, which foresaw the abrogation of the 1879 arrangement and its replacement by the Administration of the Ottoman Public Debt. In an effort to meet the demands of all parties, the outstanding debt of the Empire was reduced from £ 215,500,000 to £ 128,600,000, bringing it down to a more manageable size. In similar fashion, the yearly charges on the debt were also reduced significantly, from approximately £ 13,600,000 to £ 2,700,000. In return, the government agreed to surrender in totally and irrevocably the same revenues that had constituted the basis of the 1879 settlement, with the addition of a number of other state revenues. Overall, the arrangement meant that about one fifth of the state's revenues would be irretrievably ceded to the administration until the complete settlement of the outstanding debt.[19]

The *Muharrem* Decree and the Administration of the Ottoman Public Debt constituted a severe blow to Ottoman pride and sovereignty. For the first time in its history, the Empire had been forced surrender a considerable part of its sovereign rights over revenues, by accepting the unconditional control of foreign representatives constituting a 'state within the state.' If financial integration with Europe is the issue, this was certainly a form of integration, but a very different one from what had been the initial hopes of the government from the mid-1850s to the 1870s. What was most striking about the nature of the Ottoman Public Debt, however, was its rather ambiguous nature. Previous—and abortive—attempts at establishing control over Ottoman finances had all been based on the notion of official foreign intervention by government-sponsored commissions. The *Muharrem* Decree, however, took the form of a bilateral agreement between the Imperial government and its creditors, without any direct involvement or representation of western powers. True, by demanding the communication of the decree to the Great Powers, Article 21 brought a diplomatic dimension to the settlement; but it nevertheless remained in essence a private arrangement between bondholders and the government, without any concrete transformation of its nature into a more official one that might have included diplomatic and political sanctions.[20]

Unpopular as it may have understandably been among Ottoman circles and in subsequent Turkish historiography, there is no denying that the establishment of the Administration of the Ottoman Public Debt was a success. Its success lay first and foremost in the fact that it effectively and efficiently solved the crisis of 1875 by restoring Ottoman creditworthiness on the international markets, making it possible once again for the Empire to resort to foreign loans. From 1886 to 1914, the Ottoman state would eventually contract another twenty-three loans, totaling just over £ 150,000,000 at an average issue rate of over 85 percent, and an average interest rate of barely more than 4 percent.[21] Compared to the previous phases of borrowing, this was clearly an indication of the stabilization of the financial situation of the Empire in its indebtedness to the West. Moreover, the Administration of the Ottoman Public Debt turned out to work very efficiently in its management of the resources that had been attributed to it, leading to an increased productivity of state revenues, even if the state benefited only indirectly and very marginally from this situation. From the perspective of the Imperial Ottoman Bank, the solution of the crisis and the establishment of the administration had a liberating effect on its own activities, as it was able to redirect most of its resources towards the kind of commercial and investment activities it had longed for ever since its creation. This, in turn, brought about a relatively rapid process of integration of the Ottoman market into the international economy, albeit on terms that were essentially dictated by the European markets. By and large, the stabilization attained with the establishment of the Public Debt had enabled the Ottoman economy to engage in a rather successful, if dependent, process of growth.[22]

From a somewhat negative perspective, however, one should note that the *Muharrem* Decree was also responsible for a radical transformation of the integrative process between the Empire and Europe. Previous loans had generally been dictated by considerations linked to profits that could accrue to bondholders from the operations themselves, without any grand scheme of penetration or domination of the Ottoman economy. Integration had, therefore, remained at a rather superficial level, with only few examples of direct interventions with, and investments in, the Ottoman markets. With the sharp turn of 1881, the nature of the financial relations between the West and the Ottoman Empire changed radically, both in intensity and in nature. A steady flow of western capital started to penetrate the Ottoman market at an increasing rate, and most of all, in ways that entailed a greater control over some of the most crucial sectors of the economy. In short, from the 1890s on, Ottoman integration with Europe had started to take a substantially different course, much akin to imperialism.

Further readings:

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