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# Changes in factor markets in the Ottoman Empire, 1500–1800

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ABSTRACT. *The most important determinant of Ottoman economic institutions and their evolution in the early modern era needs to be sought in the Empire's social structure and political economy. Merchants and producers were never in a position to influence the state elites and to push for institutional changes that would favour the growth of the private sector. As a result, many of the key institutions of the Ottoman order, including the state ownership of land and the urban guilds, remained intact until the nineteenth century. In contrast, institutions related to state borrowing changed significantly. This difference in the political power of different groups explains – better than geography or resource endowments, Islam or culture – the striking divergence in the trajectory of different factor markets.*

## I. INTRODUCTION

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, for six centuries, up to World War I. Until recently, Ottoman historiography had depicted an empire in decline after the sixteenth century. In contrast, a growing literature has been arguing that Ottoman state and society had begun to adapt to changing circumstances in the early modern era, well before the nineteenth-century reforms known as *Tanzimat* or 're-ordering'. Beginning with a successful centralization drive in the second half of the fifteenth century, Ottoman economic institutions and policies were shaped to a large degree by the priorities and interests of a central bureaucracy. This central bureaucracy exhibited a

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considerable degree of flexibility and pragmatism while expanding the territories under its control. It managed to contain the many challenges it faced with the habit of negotiation, to co-opt and incorporate into the state any social groups that rebelled against them. The Ottomans were prepared to negotiate for the loyalty of local elites whenever the new state was unable to impose full control. They displayed a good deal of openness to technological innovation, such as adapting firearms on a greater scale, more effectively and earlier than the neighbouring states, especially in the earlier period. The Ottomans also proved to be quite adept at learning about and borrowing institutions from others.[1]

While pragmatism, flexibility, willingness to negotiate and ability to adapt some of their institutions to changing circumstances were traits that enabled the Ottomans to retain power until the modern era, their limitations need to be equally emphasized. Institutional change did not apply equally to all areas of Ottoman economic life. Not all types of institution were affected to the same degree by these changes. Because the central bureaucracy was able to retain its leading position in Ottoman society and politics, the influence of various social groups over economic matters – not only of landowners but also merchants, manufacturers and money-changers – and more generally over the policies of the central government, remained limited until the end of the empire. As a result, most of the pragmatism and flexibility was utilized by the central bureaucracy for the defence of the existing order and of its own position.

In contrast, institutional changes that might have threatened the leading position of the central bureaucracy were resisted more forcefully than others. Institutional change thus remained selective and many of the key institutions of the Ottoman order, such as state ownership of land, the role of urban guilds and restrictions on the accumulation of private capital remained intact until the nineteenth century. I will also argue that selective institutional change led to very different paces and patterns of change in the three factor markets. Capital markets, especially those related to affairs of the state showed considerable change in the early modern era. In contrast, changes in the labour and land markets remained limited because these institutions were fiercely defended by the bureaucracy. The same argument may be stated in different terms: those in favour of greater changes in these factor markets, for example landowners, merchants and manufacturers, were not strong enough to overcome the opposition of the bureaucracy and other political forces until the nineteenth century.

Institutional economics proposes a number of causes or determinants of institutions. Most important amongst them are: (i) geography or resource endowments, (ii) religion or more generally culture, and (iii) social

conflict or political economy. Ottoman economic institutions, including some financial institutions, have of course been influenced by geography and resource endowments. For example, the land regime and fiscal institutions in Egypt were shaped to a large degree by the needs of irrigated agriculture. In the core regions of the empire, low population density tended to support peasant farms in the countryside. With the exception of Egypt, however, the geography and resource endowments of the areas covered by the Ottoman Empire were not very different from those of western Europe. For this reason, geography or resource endowments were not primary causes of the differences in economic institutions between them.

Religion and/or culture have long been offered as a primary cause of the differences in economic outcomes between the Middle East and western Europe. Max Weber, and more recently, David Landes have offered prominent examples of this type of explanation. More recently, in a series of recent articles Timur Kuran has pointed to Middle Eastern institutions rooted in Islamic law (including inheritance law, commercial law and others) as past – and in some cases also continuing – obstacles to economic development. While European economies developed increasingly more sophisticated institutions and larger enterprises, those in the Islamic world stagnated. As a result, Kuran has argued, these Middle Eastern institutions never caused a decline in economic activity but they did turn into handicaps by perpetuating themselves during the centuries when the West developed the institutions of the modern economy.[2] As I will argue below, 'decline or stagnation' is not an appropriate characterization of the economy or the institutions of the Middle East. There were, in fact, many changes in the economic institutions of the region. Moreover, those economic institutions that allegedly had their basis in Islamic law actually showed great variation as they evolved over the centuries in different regions across the Islamic world, from Spain to North Africa to the Near East and South and Southeast Asia. Equally importantly, many of the key economic institutions in the region, most notably state ownership of land, cannot be linked in any way to Islamic law. For this reason it is difficult to argue that the social and economic institutions of the Middle East are deeply rooted in Islam and Islamic law.

How economic institutions are determined, and why they vary across countries, is not sufficiently well understood. Nonetheless, it is clear that because different social groups benefit from different economic institutions there is generally a conflict of interest over the choice of economic institutions, which is ultimately resolved in favour of groups with the greatest political power. The distribution of political power in society is in turn determined by political institutions and the distribution of economic

power. It is also recognized that, for long-term growth, economic institutions should not offer incentives only to a narrow elite but should open up opportunities to broader sections of society. For this reason, political economy and political institutions are considered as key determinants of economic institutions and the direction of institutional change.[3]

Those contributors to the recent institutional economics literature who adhere to a social-conflict or political-economy explanation of economic institutions argue that because different groups and individuals typically benefit from different economic institutions, there is generally a conflict over the choice of economic institutions, ultimately resolved in favour of groups with greater political power. Economic institutions that provide incentives to invest in land, physical and human capital or technology are more likely to arise when political power is in the hands of a relatively broad group who have significant investment opportunities. The state can be a major player in this context because it maintains the coercive power to enforce these rules.

In a related recent study, Daron Acemoglu, Simon Johnson and James Robinson have offered an explanation for why strong private property rights emerged in western Europe, especially in Britain and the Netherlands, beginning in the sixteenth century. They argue that Atlantic trade – the opening of the sea routes to the New World, Africa and Asia and the building of colonial empires – contributed to the process of western European growth between 1500 and 1850, not only through its direct economic effects but also indirectly, by inducing fundamental institutional changes. The Atlantic trade in Britain and the Netherlands altered their balance of political power by enriching and strengthening commercial interests outside the royal circle, including overseas merchants, slave traders and colonial planters. Through this channel, it contributed to the emergence of political institutions that protected merchants against royal power. In short, they argue, the Atlantic trade played a key role in strengthening segments of the bourgeosie and the development of capitalist institutions in these countries. In contrast, where the power of the crown was relatively unchecked, as in Spain, Portugal and France, Acemoglu, Johnson and Robinson emphasize that trade was largely monopolized and regulated, the crown and its allies became the main beneficiaries of the Atlantic expansion and the same induced institutional changes did not take place. Areas lacking easy access to the Atlantic, such as Venice and Genoa, on the other hand, did not experience any direct or indirect benefits of Atlantic trade.[4]

This argument also suggests that the causal relationship between institutions and economic development is not necessarily one-directional, running from institutions to economic development. Economic development,

or its absence, also influences the institutions and their evolution. In other words, it may be argued that just as the expansion of Atlantic trade helped merchants shape the capitalistic institutions in northwestern Europe, the low levels of economic transformation in the economies of the Near East limited the economic and political power enjoyed by their merchants and manufacturers. These low levels of economic development helped maintain a different pattern of institutions, one that was not equally friendly to merchants and more generally to the private sector.

I begin below with a discussion of the economic priorities and policies of the Ottoman government. I will then examine the factor markets in the Ottoman Empire and their evolution during the early modern era. I will show that many of the key economic institutions – most importantly those related to land and labour: state ownership of agricultural land and the power of the guilds – were shaped largely by economic, social and political factors. I will also argue that the most powerful determinant of Ottoman economic institutions and their evolution in the early modern era needs to be looked for not in religion but in the social structure: in the leading position of the central bureaucracy in both society and political economy.

## II. ECONOMIC PRIORITIES AND POLICIES

Late medieval and early modern states all had to address a common range of economic problems. The most basic of these were directly related to the maintenance of the states themselves. The provisioning of the capital city, of the armed forces and to a lesser extent of other urban areas, taxation, the support and regulation of long-distance trade and the maintainence of a steady supply of money were amongst the leading concerns of economic policy.[5]

In their economic polices, states did not pursue the public interest in some abstract sense of the term. Instead, both the goals and design of economic policies, as well as the institutions related to their implementation, were shaped by the social structure, the relationship between state and society, the interests of different social groups aligned with or represented by the state and, more generally, the social and political influences acting on the state. To understand Ottoman economic policies or practices, it is thus necessary to examine the nature of the Ottoman state and its relationships with different social groups. Until late in the fifteenth century, there existed a considerable amount of tension in Ottoman society between the Turkish landed aristocracy of the provinces, who were deeply involved in the territorial conquests, and a bureaucracy at the centre made up mostly of converted slaves (*devshirme*), with the balance

of power often shifting between the two. The successful centralization drive of Mehmed II in second half of the fifteenth century swung the pendulum again, this time decisively. The landed aristocracy was defeated, state ownership was established over privately held lands and power was concentrated in the hands of the central bureaucracy. After this shift, the policies of the government in Istanbul began to reflect much more strongly the priorities of this bureaucracy. The influence of others social groups, not only landowners but also merchants and moneychangers, over the policies of the central government remained limited.

For the Ottomans, there existed an ideal order and balance between social groups such as the peasantry, the guilds and the merchants. The sultan and the central bureaucracy were placed at the top of this order. This ideal changed over time along with changes in the economy and society. Nonetheless, the government took care to preserve as much as possible the prevailing order and the social balances, including the structures of employment and production. From this perspective, rapid accumulation of capital by merchants, guild members or any other group was not considered favourably since it was felt it would lead to the rapid disintegration of the existing order.

As a result, the government's attitude towards merchants was profoundly ambiguous. On the one hand, merchants, large and small, were considered indispensable for the functioning of the urban economy. Yet, at the same time, their activities occasionally led to higher prices for raw materials, bringing pressure on the guild system and the urban economy more generally. Thus the central administration often considered its main task as being to control the merchants not to protect them. At the same time, however, controlling the merchants was much more difficult than controlling the guilds. While the guilds were fixed in location, the merchants were mobile. Needless to say, the official attitude towards financiers and moneychangers was similarly ambiguous.[6] The state tolerated, and even encouraged, the activities of merchants, domestic manufacturers more or less independent of the guilds and moneychangers, as long as they helped to reproduce the traditional order.[7]

Another important priority of the Ottomans was the provisioning of urban areas, including the army, which was seen as necessary for the stability of the social order.[8] The government wanted to assure a steady supply of goods, especially for the capital city. The bureaucracy was very much aware of the critical role played by merchants in this respect. With the territorial expansion of the empire and the incorporation of Syria and Egypt during the sixteenth century, long-distance trade and the control of the intercontinental trade routes became increasingly important and even critical for these needs.[9]

This emphasis on provisioning necessitated an important distinction between imports and exports. Imports were encouraged because they added to the availability of goods in the urban markets. In contrast, exports were tolerated only after the requirements of the domestic economy had been met. As soon as the possibility of shortages emerged, however, the government did not hesitate to prohibit the exportation of basic necessities, especially foodstuffs and raw materials.

The contrasts between these policies and the practices of mercantilism in Europe are obvious. It would be a mistake, however, to identify this concern with the provisioning of urban areas solely with Ottomans or Islamic states. Frequent occurrences of crop failures, famine and epidemics combined with the primitive nature of the available means of transport, led most (if not all) medieval governments to focus on the urban food supply and more generally on provisioning as key concerns of economic policy. These Ottoman priorities and practices had strong parallels in the policies of the governments in western and southern Europe during the late Middle Ages, from the twelfth through the fifteenth centuries.[10] The contrasts between Ottoman and European economic policies emerged during the era of mercantilism in Europe.[11] One important reason why mercantilist ideas never took root in Ottoman lands was that the merchants and domestic producers whose ideas and perspectives were so influential in the development of these ideas in Europe did not play a significant role in Ottoman economic thought. Despite the general trend towards decentralization of the empire during the seventeenth and eighteenth centuries, these groups, who were the leading proponents and actual developers of mercantilist policies in Europe, never became powerful enough to exert sufficient pressure on the Ottoman government to change or even modify the traditional policies. Only in the provinces, were locally powerful groups able to exert increasing degrees of influence over provincial administrators.

It is also significant that the Ottoman merchants failed to develop networks and, more generally, a significant presence in Europe during the early modern period. From the twelfth century onwards, most European countries had promulgated laws forbidding lengthy sojourns, permanent settlement or engagement in commerce by foreign nationals including Muslims. There were also other factors that contributed to this absence, however. While the governments of European countries often encouraged, backed and supported merchants who were their subjects or citizens, Ottoman governments did not view the protection of the merchants who were their subjects and who operated outside the boundaries of their countries as a matter worthy of their attention. One major reason for this was that the governments felt that the activities of the merchants

abroad did not yield any revenues or otherwise provide a fiscal advantage to the central treasury. The basic message to merchants operating abroad was that their state was indifferent to their activity and hence no backing or protection was granted to them when they needed it.[12]

On the other side of this coin lay the willingness and even readiness of the Ottoman governments, as well as the governments in the medieval Middle East, to offer privileges – legal, commercial and other – to European merchants in the form of unilateral decrees. These privileges were granted from the twelfth century, but not because the governments were coerced by the more powerful European states. In fact, such a power imbalance did not really exist until the eighteenth or nineteenth century. Through these privileges, the rulers around the eastern Mediterranean had sought to to increase the circulation of goods, especially of luxury goods, in their local markets and to increase state revenues from trade. Another motive was to use the privileges as an instrument of foreign policy to gain influence and friendship in Europe. It is clear, however, that the local merchants did not have much say in this process because such privileges often put them at a disadvantage as against their European counterparts. The privileges for the European merchants included lower tariffs or even exemptions from certain kinds of duties.[13] It is clear that these put European merchants at least on equal footing with, and in many instances at a an advantage over, the local merchants.

These privileges played an important role in the transfer of large segments of Ottoman long-distance trade, as well as coastal and long-distance shipping, to European merchants in the following centuries. As the local merchants became weaker, it became even more difficult for them to have any input into their governments' trade policies or to change the commercial or economic institutions in the region. With the rise of the Atlantic trade, the merchants of northwestern European countries increased their power substantially. They were then able not only to bring about major institutional changes in their countries but also to induce their governments to defend and develop their interests more forcefully in the Middle East. Merchants of the region thus found it even more difficult to compete against them after the sixteenth century.

With the decline in the power of the Ottoman Empire, the privileges provided to the European merchants ceased to be unilateral grants. They were expanded substantially in the eighteenth century and especially in the nineteenth, under pressure from the European powers. These privileges began to be referred to as the 'capitulations', as a result of the many headings they were grouped under in the original Latin texts in the medieval era. The Ottoman state was not allowed to revoke or reverse

these privileges. The capitulations were only abolished after World War I and the dissolution of the Ottoman Empire.

## III. SELECTIVE INTERVENTIONISM

Economic historians of the Ottoman Empire have long emphasized that interventionism was a permanent feature of Ottoman economic policies.[14] It is true that the Ottoman government did not hesitate to intervene in local and long-distance trade to regulate markets and ensure the availability of goods for the military, the palace and, more generally, the urban economy. In comparison to both Islamic law and the general practice in medieval Islamic states, the early Ottomans were definitely more interventionist in their approach. In economic and fiscal affairs as well as in many administrative practices they often issued their own state laws (*kanun*) even if those came into conflict with the *shariat* (Islamic law). The practices they employed – such as the enforcement of regulations (*hisba*) in urban markets and price ceilings (*narh*) – had their origins in early Islamic tradition but the Ottomans relied on them more frequently. In addition, in the provisioning of the army and the urban economy, deliveries at fixed prices were required from merchants for some of the more important goods.[15]

Nonetheless, it is necessary to distinguish priorities and intentions from actual implementation. Whether the governments succeeded in bringing about the desired outcomes through their interventions depended on their capabilities. Yet there existed serious limitations on the administrative resources, organization and capacity of all early modern states. They did not have the capacity to intervene in markets comprehensively and effectively. Attempting to intervene in the economy did not necessarily mean succeeding in bringing about the desired outcomes. The mixed success of government actions inevitably led the Ottoman authorities to recognize the limitations of their power. As a result, Ottoman governments moved away from a position of comprehensive interventionism as it was practised during the reign of Mehmed II (1444 and 1451–1481) towards more selective interventionism in later periods.

Unfortunately, this evolution towards a more selective nature of government interventionism after the fifteenth and sixteenth centuries has not been adequately recognized. The laws issued by Mehmed II and his immediate successors continue to be referred to as examples of government interventionism in the economy. This inability of many historians to make a more realistic assessment about interventionism is primarily the result of a state-centred perspective. In addition, there are a number of practical reasons why archival evidence has misled historians to

exaggerate both the frequency and the extent of state interventions in the economy. One basic source of error has been the unrepresentative nature of the available material. Each government intervention was typically recorded by a document in the form of an order to the local judge (*kadi*) or some other authority. In contrast, there are no records for the countless numbers of occasions when the government let the markets function on their own. Faced with this one-sided evidence, many historians have concluded that state intervention and regulation was a permanent fixture of most markets at most locations across the empire.

The case of the official price-ceiling (*narh*) lists provides an excellent example in this respect. After collecting a few of these from the court archives, most historians have assumed that *narh* was a permanent fixture of urban economic life. In fact, my recent searches through all of the more than a thousand registers of three of Istanbul's courts, those of the Old City, Galata and Üskudar from the fifteenth through the mid-nineteenth centuries, have indicated that *narh* lists were not regularly prepared. They were issued primarily during extraordinary periods of instability and distress in the commodity and or money markets, when prices, especially food prices, tended to show sharp fluctuations or upward movements. Wars, crop failures, other difficulties in provisioning the city and monetary instabilities such as debasements or reforms of the coinage were examples of these extraordinary periods. In the absence of such problems, however, there were long intervals – sometimes lasting for decades – when the local administrators did not issue *narh* lists.[16]

Another bias is related to the fact that a large part of the available documents provide evidence of state intervention directly related to the economy of the capital city.[17] This evidence has led many historians to assume that the same pattern applied to the rest of the empire. In fact, Istanbul was unique in terms of both its size and its political importance. With its population approaching half a million, it was the largest city in Europe and West Asia during the sixteenth century. As was the case with monster cities elsewhere, government economic policy often revolved around it. In contrast, the central government was much less concerned about the provisioning of other urban centres. The state organization was not as strong there and the local authorities, who were appointed by the centre, were more willing to cooperate with the locally powerful groups: the guild hierarchy, merchants, tax collectors and moneychangers.[18]

Examples of Ottoman monetary practice only confirms the Ottoman tendency to rely on markets and local practices in most economic matters. Until the sixteenth century, the Ottoman territories in Anatolia and the Balkans had a unified monetary system based on the gold *sultani* and the

silver *akçe*. At the bottom of the hierarchy were copper coins with nominal values used for small transactions. As the Ottoman state territorially expanded to become a fully fledged empire in the sixteenth century, however, this simple system could not continue. The newly conquered territories, each of which was subject to different economic forces and very different patterns of trade, already had well-established currency systems of their own. The Ottomans pursued a two-tiered approach to money and currency in these areas. The *sultani* became the only Ottoman gold coin across the empire in the sixteenth century, for both symbolic and economic reasons. With a single gold coin as the ultimate symbol of sovereignty, the Ottomans thus unified the empire from the Balkans to Egypt and the Maghrib. In another example of pragmatism, the standards of the *sultani*, its weight and fineness, were kept identical to those of the Venetian ducat, which had become the accepted standard of payment in long-distance trade across the Mediterranean and beyond.

For the silver coinage used in daily transactions, and to some extent in long-distance trade, the central government chose to continue with the existing monetary units in the newly conquered territories, with or without modifications. The most important reason for this preference was a wish to avoid economic disruption and possible popular unrest. Also, it was not clear whether the central government had the fiscal, administrative and economic resources to unify the silver coinage of the empire. As a result, while the silver coinage that was minted in the new territories from Mesopotamia to Egypt and Tunis began to bear the name of the sultan, their designs and standards as well as the names of the currencies adhered to the pre-Ottoman forms and usages. Earlier styles and types of copper coinage were also continued.

In all regions of the empire the silver currency remained the basic unit of account and the leading means of payment in local transactions. The exchange rates of the Ottoman and foreign gold coins, expressed in terms of the local silver unit, were determined by the markets, subject to changes in the specie content of the silver currency, fluctuations in the gold–silver ratio and a host of other factors. The state encouraged the circulation of all types of foreign coinage in order to maximize the means of payment in local markets. Moreover, the government did not adhere to a legally fixed rate of exchange between the gold and silver coins or to a fixed gold–silver ratio around which the face value or the standards of both types of coin would be determined. Similarly, the exchange rates of the various coins were also determined by the local markets. The basic virtue of this system was its flexibility: as long as the markets determined the exchange rates of various coins, and if the official rates at which the government accepted these coins followed the markets closely, none of these coins was likely to

be over- or undervalued. For this reason, they were less likely to disappear from circulation.[19]

In short, a more realistic assessment of the nature of Ottoman state interventionism in the economy is long overdue. When the biases of archival evidence and the limitations on the power and capabilities of the state are taken into account, Ottoman policy towards trade and markets is best characterized not as permanent and comprehensive interventionism, but as selective interventionism. In its later periods, intervention was used primarily for the provisioning of selected goods for the capital city and the army, and during extraordinary periods when shortages reached crisis conditions.

## IV. LAND AS A COMMODITY?

Until the end of the sixteenth century, the rise of the Ottoman Empire was closely associated with territorial expansion. Military success, in turn, depended closely on the land-tenure regime, which supported a large, cavalry-based army. The Ottoman bureaucracy always took care to undertake detailed censuses of the new territories in order to assess their fiscal potential. Even after territorial expansion slowed down in the second half of the sixteenth century, agriculture continued to provide the economic livelihood for close to 90 per cent of the population as well as key fiscal support for the Ottoman state. The durability of the empire and its achievements as well as its limitations during the next three centuries cannot be understood without paying attention to its agrarian institutions.

Ottoman land market institutions were shaped most importantly by economic and political factors and experienced limited changes in the early modern era. During the early stages of Ottoman territorial expansion, lands taken over from the neighbouring states in the Balkans began to be registered as state lands. In contrast, private property in land continued in areas taken from the Islamic principalities in Anatolia. With the centralization drive in the second half of the fifteenth century, however, state ownership of agricultural lands was established as the basic form in the core regions of the empire, in the Balkans, Anatolia and Syria. It has been estimated that as much as three-quarters or more of the agricultural lands in these core regions were under state ownership during the first half of the sixteenth century.[20] The state did not relinquish its ownership of these lands until the second half of the nineteenth century.

Hereditary usufruct of these lands was given to peasant households, which typically cultivated them with a pair of oxen and family labour. The peasant family farm thus emerged as the basic economic and fiscal unit in

the countryside.[21] Peasant families could not sell the land or their usufruct rights. The collection of taxes from these peasant cultivators and the conversion of these revenues into a large provincial army was made possible by the *timar* system. Under this system, *sipahis* (state employees often chosen for their wartime valour) lived in the rural areas, collected taxes, mostly in-kind, from the agricultural producers and spent the revenues locally on the training and equipment of a predetermined number of soldiers as well as on their own maintenance. The Ottoman central administration did not attempt to impose the *timar* regime in all of the conquered territories, however. In many of the more distant areas, such as Eastern Anatolia, Iraq, Egypt, Yemen, Wallachia, Moldavia and the Maghrib, the Ottomans were eager to collect taxes but altered the existing land regimes either to a limited extent or not at all. The most important reason for this preference was the wish to avoid economic disruption and possible popular unrest. It was also not clear whether the central government had the fiscal, administrative and economic resources to establish a new regime in these areas.

The central government thus handled the task of establishing the land-tenure-cum-fiscal regime for the expanding empire with a large degree of pragmatism. This approach was in fact quite similar to Ottoman practices in other areas. As a result, there emerged inside the empire zones that were under varying degrees of administrative control. At the core were the areas most closely administered by the capital, with institutions most closely resembling those in the Istanbul region. With increasing distance from the capital, the institutions and administrative practices reflected the power balances between the capital and the local structures and forces. For example, the land regime and the fiscal practices in Ottoman Egypt remained closely linked to the demands of irrigated agriculture along the Nile valley. In the more distant frontier regions, the Ottomans retained many of the local institutions and did not attempt to impose the institutions of the core regions.[22]

Despite the decline in the power of the central government and the rise of urban notables in the provinces in the seventeenth century, and especially in the eighteenth, the latter could not establish private property on land. *De facto* large holdings emerged in the Balkans and Syria but they were less common in Anatolia where higher land/labour ratios favoured peasant households and small holdings. The state refused to recognize private ownership in agricultural land during this period, with the exception of orchards and vineyards in urban areas. Local courts, which had jurisdiction over matters of property, rarely approved sales of agricultural land. Records from these Islamic courts provide details of some cases of land sales during the early modern era but these are small in number.

Formal sales of urban lands and real estate and of orchards and vineyards occurred more often. It was also rare for courts to evict peasants from the lands they held for defaulting on loan payments or for similar reasons. Even in the Balkans and in Syria, land did not emerge as a major form of investment for the wealthy. Investment in land ranked behind tax collection and trade as the leading forms of economic activity for the provincial notables. Usufruct in most state lands thus remained in the hands of peasant households. When the central government began to reassert itself in the provinces with a successful centralization drive in the second quarter of the nineteenth century, it was able to replace many of the leading notables with new individuals or families as provincial tax farmers. As the power of the long-standing notable families declined, their control over agricultural lands weakened and the state (*miri*) status of the latter was reaffirmed. Peasant family enterprises cultivating lands under state ownership thus continued into the second half of the nineteenth century as the basic form of Ottoman agriculture. All of this means that agricultural lands, with the exception of vineyards and orchards, were rarely bought and sold in the open market. Urban real estate did change hands quite easily, however, as is evidenced by the large volume of documents available from the records of Islamic courts. The state began to recognize private property on the agricultural lands only after the Land Code of 1858.[23]

State power was not the only obstacle in the way of private property in land, however. Commercialization of agriculture, including the exporting of agricultural commodities, remained limited until the nineteenth century. In addition, in a landscape dominated by small peasant holdings, it was not easy to find wage labour. Large farms or estates using year-round labour thus remained few in number. The exceptions were mostly in the Balkans where expansion of long distance trade and greater population density provided greater support for larger estates oriented towards commercial agriculture. In Egypt, on the other hand, institutions of landownership and taxation as well as the techniques and organization of cultivation depended closely on the irrigation of fertile land. Large holdings and sales of agricultural land were more frequent there.[24]

Another important category of land was the *vakif* or pious foundation. Islamic law allowed individuals who had private property (including land) under private ownership to convert some or all of these assets to *vakif* status and to direct their future income for a predetermined purpose. At the time of the endowment, private ownership terminated. A board of trustees was then appointed to rent out or otherwise manage the property designated as *vakif* and to direct the revenues towards the designated

purpose. Control of the board of trustees over these lands usually weakened over time and the tenants began to enjoy greater autonomy and to pay less in rent. Despite occasional state expropriation, substantial amounts of agricultural land as well as urban real estate remained under *vakif* status throughout the Ottoman centuries, but both *vakif* lands and legally recognized private property in land made up only a fraction of the land under state ownership until the nineteenth century.

## V. GUILDS AND LABOUR MARKETS

The importance of agriculture in the Ottoman labour force ranged between 80 to 90 per cent during the early modern era. Most of this labour force was self-employed in the family enterprises that were by far the most frequently observed form in agriculture. Even the large holdings in the Balkans were most often leased out to sharecropping families that used unpaid family labour. In other words, farms using year-round wage labour or servile labour were exceptional in the Ottoman Empire. In the earlier literature, there have been arguments about the emergence of a second serfdom in the Balkans during the seventeenth and eighteenth centuries but these arguments have been abandoned in recent decades.[25] Seasonal wage labour can be observed in certain crops such as cotton. Putting-out activities in the countryside and rural industry using wage labour also remained limited except in parts of the Balkans such as Thessalia, Macedonia and Bulgaria.

In the urban economy, labourers in trade and manufacturing remained mostly under the umbrella of the guilds until the second half of the nineteenth century. Even though religious themes – Muslim and non-Muslim – played an important role in guilds, the evolution of the Ottoman guilds was shaped primarily by economic and political factors. The guilds tried to regulate the labour markets by employing a wide range of restrictions including wage rates. They often sought the support of local or central government to enforce guild rules, secure raw materials at low prices and obtain tax exemptions. The government, in turn, needed and relied on the guilds for the provisioning of the urban areas and the military. The guilds also offered the government an instrument for the supervision of the urban population. Nonetheless, there existed a considerable amount of tension between the government and guild membership, both Muslim and non-Muslim. While the guilds tried to preserve their independence, they were viewed with suspicion for the heterodox religious beliefs of their membership.[26] The guilds were generally more free of government supervision and intervention in the provinces. An important development in the eighteenth century was the increasing

overlap between guild membership and the janissaries, the permanent army soldiers. Growing numbers of janissaries or traditional soldiers amongst guild membership in both the capital and the provinces increased the ability of the guilds to resist government pressure and intervention. After the abolition of the janissaries in 1826 and the establishment of a new permanent army, however, the ability of the guilds to resist government encroachment was sharply reduced.

The guilds did not attempt to place restrictions on new entries in the early period. These restrictions emerged and tensions between guild members and non-members began to rise in the seventeenth century, however. The right to own an enterprise that was part of an urban guild began to be bought and sold in the eighteenth century. The emergence of such a market may be taken as a sign that the value of these enterprises was rising. The emergence of a market in such licences (*gedik*) can also be interpreted as a sign of the increasing power of the guilds and their ability to enforce restrictions on entry. The guild also attempted to prevent the activities of non-members and to stop merchants whenever they tried to organize alternative forms of production in the rural areas or just outside the limits of urban centres. The outcome of these efforts was mixed, however. In the Balkans, many labourers and enterprises operated outside the guilds from the sixteenth century, despite the opposition of the guilds and their efforts to seek local and central government action against the newcomers. Entry of non-member labourers and owners was much more difficult in the capital city as the government played a more active role there. In the Arab provinces, tensions between members and non-members began to increase in the eighteenth century as small but growing volumes of trade and manufacturing activities began to take place outside the control of the guilds. In general, however, recent immigrants to urban areas did not find it easy to find employment in the guilds after the sixteenth century. Agricultural activities in and around the urban areas offered recent migrants easier access to employment opportunities. Wage labour in manufacturing outside the guild system began to expand only towards the end of the nineteenth century after the guilds were subjected to a large degree of competition from imported European manufactures.[27] It would be safe to estimate that the proportion of those who received most or even a significant part of their income as wages or salaries remained below 10 per cent of the labour force in the early modern era. The available evidence does not point to a clear direction or trend in this share during these three centuries. The numbers of female wage earners were even smaller. They also began to increase with the growing commercialization of the nineteenth century.

Markets for slaves existed until the second half of the nineteenth century but most of the limited numbers of slaves were employed as domestic labour. Slave labour was virtually non-existent in agriculture, trade and manufacturing. A prominent exception was silk manufacturing in Bursa, where labour shortages led to the use of slaves during the fifteenth century and the early part of the sixteenth.

## VI. THE EVOLUTION OF CAPITAL MARKETS

Capital markets institutions include rules for the credit markets, rules for the transferability and maturity of financial claims and rules concerning the liability of debtors, shareholders and financial intermediaries. This section examines different aspects of capital markets in the Ottoman Empire and their evolution during the early modern era. The emphasis will be on pragmatism and selective change. I will argue that capital market institutions in the Ottoman Empire, especially those pertaining to public finance, changed to a greater extent than land and labour market institutions.

### (*i*) *Islam and interest*

It has often been assumed that the prohibition of interest in Islam prevented the development of credit or, at best, that it imposed rigid obstacles in its way. Similarly, the apparent absence of deposit banking and lending by banks has led many observers to conclude that financial institutions and instruments were, by and large, absent in Islamic societies. It is true that a religiously inspired prohibition against usurious transactions was a powerful feature shared around the Mediterranean during the Middle Ages, by both the Islamic world and the Christian West.[28] While the practice of *riba*, the Arabic term for usury and interest, is sharply denounced in a number of passages in the Qur'an and in all subsequent Islamic religious writings, already in the medieval era Islamic law had provided several means by which the anti-usury prohibition could be circumvented, just as the same prohibitions were circumvented in Europe in the late medieval period. Various legal fictions, based primarily on the model of the 'double-sale', were, if not enthusiastically endorsed by jurists, at least not declared invalid. Thus, there did not exist an insurmountable barrier against the use of interest-bearing loans for commercial credit.

Neither the Islamic prohibitions against interest and usury nor the absence of formal banking institutions prevented the expansion of credit in Ottoman society. Utilizing the Islamic court records, the late Ronald

Jennings has shown that dense networks of lenders and borrowers flourished in and around the Anatolian cities of Kayseri, Karaman, Amasya and Trabzon during the sixteenth century. Over the twenty-year period his study covered, he found literally thousands of court cases involving debts. Many members of families and many women are registered in these records as borrowing and lending to other members of the family as well as to outsiders. These records leave no doubt that the use of credit was widespread among all segments of urban and even rural society. Most lending and borrowing was on a small scale and interest was regularly charged on credit, in accordance with both Islamic and Ottoman law, with the consent and approval of the court and the *ulema* (religious scholars). In their dealings with the court the participants felt no need to conceal interest or resort to tricks in order to clear legal hurdles. Annual rates of interest ranged from 10 to 20 per cent.[29]

The supply of capital was fairly abundant and hence was not the monopoly of any small group of moneylenders. The moneylenders came as much from among the Muslim as the Christian and Jewish inhabitants of these towns. There was little indication until the end of the seventeenth century in either Anatolia or in Aleppo that non-Muslims had gained control over the credit markets. A commercial or mercantile mentality and the profit motive thus permeated all segments of the urban societies in these areas, not just the people of the bazaars but the rural landholders, the Ottoman military class and the *ulema* as well.[30]

One important instrument in the finance of long-distance trade was the *suftaja*, a bill of exchange or letter of credit. Their basic purpose was to expedite long-distance payments or transfer of funds. In Europe, the bill of exchange entailed the initial payment of one type of currency in return for the payment of another type of currency at a different location. In the Geniza documents of medieval Egypt the *suftaja*s consistently appear as involving the repayment of exactly the same type of money to the issuing banker. They were as good as money; the bearer could fully expect to redeem his suftaja for cash immediately upon arrival at his destination. The prompt payment was further assured by the government through the imposition of stiff penalties for any delays. *Suftaja*s were used used widely inside the Ottoman empire between Anatolia, the Aegean islands, the Crimea, Syria, Egypt and also with Iran. Ottoman court documents from fifteenth- and sixteenth-century Bursa, a major centre of long-distance trade, point to the high frequency of the use of *suftaja*s. The local judges (*kadi*s) were actively involved in the enforcement of the *suftaja*s in their various forms.[31] Another type of letter of credit was the *hawala*, which was an assignation of a fund from a distant source of revenue by a written order. It was used in both state

and private transactions to avoid the dangers and delays in the transportation of cash.[32]

One important provider of loans in Istanbul, the Balkans and the Anatolian urban centres were the cash *vakif*s (as described above in relation to land), pious foundations established under Islamic law with the explicit purpose of lending their cash assets and using the interest income to fulfil their goals. These endowments began to be approved by the Ottoman courts in the early part of the fifteenth century and had become popular all over Anatolia and the Balkan provinces by the end of the sixteenth.

Not surprisingly, a lively debate developed during the sixteenth century within the Ottoman *ulema* regarding whether the cash *vakif* should be considered illegitimate. The cash *vakif*s were opposed by those who believed that only goods with permanent value such as real estate should constitute the assets of a pious foundation and that the cash *vakif*s contravened the Islamic prohibition of interest. The majority of the *ulema*, however, remained eminently pragmatic and the view that anything useful for the community is useful for Islam ultimately prevailed. During the heated debate, Ebusuud Efendi, the prominent, state-appointed religious leader (*seyhulislam*) of the period, defended the practice from a purely practical point of view, arguing that the abolition of interest-taking would lead to the collapse of many pious foundations, a situation that would harm the Muslim community.[33] Ottoman institutions of credit and finance retained their Islamic lineage and remained mostly uninfluenced by developments in Europe until the end of the seventeenth century.[34]

Despite this pragmatism, however, the cash *vakif*s faced serious shortcomings. The interest they charged was fixed by the original founders and could not respond to later changes in market conditions. More importantly, their capital was limited primarily to the original endowment and whatever additional amount could be accumulated by ploughing back the profits and other marginal means. Since the original capital was essentially composed of the savings of a single individual, no matter how wealthy they were such funds were bound to remain small and the potential for growth remained limited over the long term. Moreover, the Ottoman cash *vakif*s never lent to entrepreneurs; they provided consumption credit. An interesting development that became more pronounced during the eighteenth century was the increasing allocation of funds to the trustees of these endowments. The trustees then used the borrowed funds to lend at higher rates of interest to large-scale moneylenders (*sarraf*) at Istanbul who pooled these funds to finance larger ventures, most importantly long-distance trade and tax farming.[35]

### (*ii*) *Business partnerships*

Even though there did not exist an insurmountable barrier against the use of interest-bearing loans for commercial credit, this alternative was not pursued in the medieval Islamic world. Instead, numerous other commercial techniques were developed that played the same role as interest-bearing loans and thus made the use of loans unnecessary. These included a variety of forms of business partnership, such as *mudaraba* or *commenda*, credit arrangements, transfers of debt and letters of credit, all of which were sanctioned by religious theory. Long-distance trade was thus financed not by simple credit relations involving interest but by a variety of Islamic business partnerships, the specifics of which depended on the nature of the risks and the resources provided by the different partners.

Ottoman merchants had widely used the varieties of Islamic business partnerships practiced in the Islamic world since the medieval era.[36] The most frequently used method in the financing of long-distance trade and certain other types of business ventures was the *mudaraba* partnership of medieval Islam, in which an investor entrusted his capital or merchandise to an agent who was to trade with it and then return the principal. The profits were then shared between the principal investor and the agent according to some predetermined scheme. Any loss of the capital resulting from the exigencies of travel or the business venture itself was borne exclusively by the principal investor. The liability of the agent was limited to his time and efforts.[37] To a lesser extent the Ottomans also used the *mufawada* partnership of the Hanefi school of Islam, in which the partners were considered equals in terms of capital, effort, returns and liabilities. In the related *musharaka* (or *inan*) arrangement, the partners were free to invest different amounts and agreed to share the returns and liabilities at unequal but pre-arranged rates.

Evidence from Islamic court records on commercial disputes and their resolution until the middle of the nineteenth century indicate that in Anatolia and Istanbul, at least, the Ottoman jurists were well informed about the teachings of medieval Muslim jurists and, in general, they adhered closely to the classical Islamic principles in disputes arising from these partnerships. There were some innovations over the centuries; for example, some interesting combinations of *mudaraba* and putting-out activities were developed. On the whole, however, the evidence from hundreds of business partnerships indicates that classical Islamic partnership forms not only survived but were applied, with minor exceptions, true to their original forms until the nineteenth century. Çizakça suggests that the continued dominance of small-scale firms or partnerships was probably the most important reason for the limited changes in this area.[38]

Ottoman business partnerships as well as the cash *vakif*s thus remained relatively small, of short duration and involving limited capital. Under these conditions it is not surprising that European business organizations began to dominate Ottoman overseas as well as domestic trade. The continued dominance of small-scale firms or partnerships has been cited as the most important reason for the limited changes in institutions of private finance. In other words, it has been argued that demand for further changes in these institutions was not sufficiently strong. This line of reasoning suggests that the causal relationship between institutions and economic development is not one-directional: just as economic institutions influence the degree and direction of economic development, economic development or its absence also influences the institutions and their evolution.

There is another reason for the limited nature of institutional changes in this area. The private sector, the merchants and producers were never in a position to influence the Ottoman state elites and to push for institutional changes that would favour the growth of the private sector during these centuries. In other words, because the central bureaucracy was able to retain its leading position in Ottoman society and politics, the influence of various social groups – not only of landowners but also of merchants, manufacturers and moneychangers – over economic matters, and more generally over the policies of the central government, remained limited until the end of the empire.

### (*iii*) *Institutions of state borrowing*

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 the habit of negotiation to co-opt and if necessary to incorporate into a broad alliance any social groups that challenged its authority.

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. In the face of the prohibition on interest, 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 and 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 by cavalrymen within the *timar* system. Until the second half of the sixteenth century, the state finances were relatively strong, thanks to the revenues obtained through the rapid territorial expansion of the empire, and the state did not feel the need 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 on some of the most lucrative tax farming contracts.[39]

With the changes in military technology during the sixteenth century and the need to maintain larger, permanent armies at the centre, however, pressures increased to collect a larger part of the rural surplus at the centre. As a result, the *timar* system began to be abandoned in favour of tax farming and the tax units were auctioned off at Istanbul.[40] This shift aimed to increase the cash receipts at the centre, but the decline of the state power *vis-à-vis* the provinces reduced the expected benefits. Bureaucrats in the capital and provincial groups began to share tax-farming revenues with the central government during the seventeenth century.

A further deterioration of state finances during the seventeenth century increased the pressures on the central government to take greater advantage of the tax-farming system for the purposes of domestic borrowing. Especially during periods of war, when the fiscal pressures were greatest, the central government thus began to increase the length of the tax farming contracts from one–three years to three–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 into a form of domestic borrowing with the actual tax revenues being used as collateral by the central government.

Further steps were taken in the same direction with the introduction in 1695 of the *malikane* system, in which the revenue source began to be farmed out on a lifetime basis in return for a large initial payment to be followed by annual payments.[41] One rationale often offered for this system was that by extending the term of the contract, the state hoped that the tax contractor would 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 to 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.

With the extension of their term and the introduction of larger advance payments, the long-term financing of these contracts assumed an even greater importance. The private financiers then began to play an increasingly important role in the tax-collection process. Behind the individual – often a Muslim – who joined the bidding in the tax-farming auctions, there often existed a partnership that included financiers as well as agents who intended to organize the tax-collection process itself, often by dividing the large initial contract into smaller pieces and finding subcontractors. 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 were mostly in the form of Islamic business partnerships involving both Muslims and non-Muslims.[42] 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 in the provinces as well as innumerable contractors, agents, financiers, accountants and managers, controlled an important share of the state's revenues. This grand coalition of Istanbul-based elites and the rising elites in the provinces constituted a semi-privatized but interdependent component of the regime.[43] Many provincials were able to acquire, and pass from one generation to the next, small and medium-sized *malikane* shares in villages as long as they remained in 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.

It is significant that these changes in the tax-collection and revenue-sharing system did not alter the legal basis of landownership until the nineteenth century. Despite the rise of provincial elites, most agricultural lands remained *miri* (state) land with the peasant households holding the usufruct while the *sipahi*s gave way to tax farmers who were then 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 fulfil 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 the revenue sources after the death of the individuals who had purchased them.[44] The central government thus began to experiment with other methods fo tax collection and domestic borrowing from the 1770s onwards. Rising military expenditures and increasing fiscal pressures during wartime were once again responsible for the institutional changes. After the end of the war of 1768–1774, which had dramatically exposed the

military as well as financial weaknesses of the Ottoman system, the financial bureaucracy started a new and related system of long-term domestic borrowing called *esham*. In this system, the annual net revenues of a 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.[45] As the linkage between the annual government payments to *esham* holders and the underlying revenues of the tax base weakened, the *esham* increasingly resembled the life-term annuity that was 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.[46]

In the early part of the nineteenth century, the centre, supported by the new technologies, was able to reassert its power over the provinces. After the central government began to undermine the power of the provincial notables in the 1820s and 1830s, many of the *malikane* contracts were pulled back to the centre and their revenues began to be collected once again by tax farmers. The *malikane* or the life-term tax farming system was phased out in the 1840s as part of a larger package of administrative and economic reforms. With the same package of centralizing reforms the central government also attempted to eliminate short-term tax farmers. This last step failed, however, due to the administrative limitations of the central government. Short-term tax farming continued until World War I. Nonetheless, the centralization of the nineteenth century helped raise the central government's share of the tax revenues, from about 2–3 per cent of the underlying economy (GDP) in the late eighteenth century to 10–12 per cent on the eve of World War I.[47]

The long-term evolution of Ottoman institutions of state borrowing 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. The rise and the evolution of the tax farming,

*malikane* and *esham* systems demonstrate the willingness of the central government to come to terms with the limits of its political and administrative power by entering into a broad alliance with elites and financiers in the capital city as well as those in the provinces. The central bureaucracy was forced to share the tax revenues with provincial groups and financiers during the seventeenth and eighteenth centuries. With the centralization of the nineteenth century, however, the power and share in the tax revenues of these partners steadily declined while the ratio of tax revenues reaching the central government to GDP rose above 10 per cent for the first time in Ottoman history.

The trajectory of the institutions provides important clues for understanding the longevity of the empire as well as the key position of the central bureaucracy until the end. It also suggests that the Ottomans were willing to borrow or adapt European financial institutions before the nineteenth century. Despite recent research on the evolution of Ottoman forms, the causal connections between the evolution of the Ottoman institutions of public finance as outlined here and the evolution of the French institutions of public finance during the seventeenth century and especially in the eighteenth have not yet been investigated. The parallels between the two are quite striking, however. It appears that increasing economic and financial integration with Europe after the sixteenth century brought about more rapid changes in the institutions of public finance than in those of private finance.[48]

### (*iv*) *Linkages with western European capital markets?*

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 era to the eighteenth century substantial decreases in and a large degree of convergence of the interest rates paid by the western European governments. Nominal rates of interest declined from a range of 10–20 per cent per annum in the fourteenth century to 5–10 per cent in the seventeenth and to less than 5 per cent in the eighteenth century.[49]

The Ottoman Empire remained outside the European capital markets network until the second half of the nineteenth century, however. 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 western European capital markets in lending 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 *esham* auctions in the second half of the eighteenth century. These calculations suggest that, until the middle of the nineteenth century, the interest rates at which the state could borrow remained in the 12–15 per cent range and rose to 15–20 per cent and even higher during periods of distress such as wars or monetary instability.[50] 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.

## VII. CONCLUSION

Institutional economics proposes a number of causes or determinants of institutions. Most important amongst them have been geography or resource endowments, religion or culture and social structure or political economy. There is no doubt that Ottoman institutions have been influenced by geography and resource endowments, as the examples above have suggested. With the exception of Egypt, however, the geography or resource endowments of the areas covered by the Ottoman Empire were not very different from those of other countries with a temperate climate. For this reason, geography or resource endowments should not be considered as primary determinants of Ottoman economic institutions. I have also shown that Ottoman capital markets institutions have been influenced, to some extent, by Islam. I have emphasized, however, the flexibility of these institutions and the willingness of both the society and the state to circumvent Islamic rules in many cases. I have then argued that the most powerful determinants of Ottoman economic institutions and their evolution in the early modern era need to be searched for not in Islam but in the social structure and political economy.

Because the state elites were able to retain the leading position in Ottoman society and politics, institutional change did not apply equally

to all areas of economic life. Merchants and producers were never in a position to influence the state elites and to push for the institutional changes that would favour the growth of the private sector. As a result, the extent of changes in Ottoman factor markets during the early modern era varied considerably. Many of the key institutions of the Ottoman order, including the state ownership of land and the role of the urban guilds, remained intact until the nineteenth century. In contrast, the institutions related to state borrowing changed significantly This difference in the political power and the capacity to influence economic institutions of different groups explains – better than geography or resource endowments, Islam or culture – the striking divergence in the trajectory of the institutions of public finance on the one hand and of private finance and land and labour markets, on the other.

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ENDNOTES

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3 See Douglass C. North, *Institutions, institutional change and economic performance* (Cambridge University Press, 1990), and, more recently, Daron Acemoglu, Simon Johnson and James Robinson, 'Institutions as the fundamental cause of long-run growth', in Philippe Aghion and Steve Durlauf eds., *Handbook of economic growth* (Amsterdam and London, 2005), 385–471, and also Elhenan Helpman, *The mystery of economic growth* (Cambridge MA, 2004), and Dani Rodrik, Arvind Subramanian and Francesco Trebbi, 'Institutions rule: the primacy of institutions over geography and integration in economic development', *The Journal of Economic Growth* **9**, 2 (2004), 131–66.
4 Daron Acemoglu, Simon Johnson and James Robinson, 'The rise of Europe: Atlantic trade, institutional change and economic growth', *American Economic Review* **95** (2005), 546–79.
5 One should add the qualification that for most societies in the late medieval and early modern periods, it is difficult to talk about an economic sphere separate from the political, administrative and fiscal; see Edward Miller, 'France and England', in M. M. Postan, E. E. Rich and E. Miller eds., 'The economic policies of governments', *The Cambridge economic history of Europe*, vol. 3 (Cambridge, 1963), 282–91.

6 Huri İslamoğlu and Çağlar Keyder, 'Agenda for Ottoman history,' *Review, a Journal of the Fernand Braudel Center* **1** (1977), 31–55.
7 Carlo Cipolla has argued that there was virtual identity between the merchants and the state in the trading towns of medieval Italy: 'More than once the action of the guild of merchants seemed to imply the affirmation, *l'etat c'est moi*' (Carlo M. Cipolla, 'Currency depreciation in medieval Europe', *Economic History Review* **15** (1963), 397). Ottoman merchants during the early modern era could not possibly make a similar claim. Instead, as Udovitch has concluded for the merchants of eleventh-century Egypt, Ottoman merchants could at best proclaim '*l'etat n'est pas contre moi*' (A. L. Udovitch, 'Merchants and amirs: government and trade in eleventh century Egypt', *Asian and African Studies* **22** (1988), 53–72).
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9 Inalcik, 'The Ottoman state: economy and society', 48–52 and 179–379; see also Palmira Brummett, *Ottoman seapower and Levantine diplomacy in the age of discovery* (Albany, 1994), 131–74.
10 See Miller, 'France and England', 290–340, and C. M. Cipolla, 'The economic policies of governments: the Italian and Iberian peninsulas', in Postan, Rich and Miller eds., *The Cambridge economic history of Europe*, vol. 3, 397–429.
11 The Ottomans were not unaware of mercantilist thought and practice. Early-eighteenth-century historian Naima, for example, defended mercantilist ideas and practices and argued that if the Islamic population purchased local products instead of imports, coinage would stay in Ottoman lands; see Naima, *Tarih-i Naima*, ed. Zuhuri Danışman (Istanbul, 1968), vol. 4, 1826–7, and vol. 6, 2520–5.
12 Gad Gilbar, 'The Muslim big merchants-entrepreneurs of the Middle East, 1860–1914', *Die Welt des Islams* **43**, 1 (2003), 1–36.
13 J. Wansbrough and H. Inalcik, 'Imtiyazat', *Encyclopedia of Islam* (2nd edn, 1973).
14 See Genç, 'Osmanlı iktisadi dünya görüşü'.
15 Sabri F. Ülgener, 'İslam Hukuk ve Ahlak Kaynaklarında İktisat Siyaseti Meseleleri', *Ebülula Mardin'e Armağan*, Kenan Matbaası (Istanbul, 1944), 1151–89; Mübahat S. Kütükoğlu, *Osmanlılarda Narh Müessesesi ve 1640 Tarihli Narh Defteri* (Istanbul, 1983), 3–38. For the texts of late-fifteenth and early-sixteenth-century laws regulating the markets in large Ottoman cities, see Ömer Lütfi Barkan, 'Bazı büyük şehirlerde eşya ve yiyecek fiyatlarının tesbit ve teftişi hususlarını tanzim eden kanunlar', *Tarih Vesikaları* **1**, 5 (1942), 326–40; **2**, 7 (1943), 15–40; and **2**, 9 (1943), 168–77.
16 *Narh* lists were issued most frequently during the periods 1585–1640 and 1785–1840, times of monetary and price instability; see Şevket Pamuk, 'Prices in the Ottoman Empire, 1469–1914', *International Journal of Middle East Studies* **36** (2004), 451–68. Otherwise there were long stretches, often decades, when no *narh* lists were issued in the city of Istanbul.
17 Istanbul was a giant, consuming city dependant on its vast hinterland. The classic work on the economy of the capital city and the nature of state intervention in that economy remains Robert Mantran, *Istanbul dans la seconde moitié du XVIIe siècle* (Paris, 1962), chapitre II, 233–86; see also Inalcik, 'The Ottoman state: economy and society', 179–87.
18 See, for example, Halil Inalcik, 'Bursa and the commerce of the Levant', *Journal of the Economic and Social History of the Levant* **3** (1960), 131–47, B. Masters, *The origins of western economic dominance in the Middle East: mercantilism and the Islamic economy in*

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