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OTTOMAN PAST
AND
TODAY'S TURKEY

EDITED BY

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6. STATE AND THE ECONOMY IN THE AGE OF REFORMS: CONTINUITY AND CHANGE

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The Ottoman state during the classical age appears to have pursued an approach towards the economy characterized, on the one hand, by total indifference and, on the other, by comprehensive and detailed interference. Closer examination, however, reveals that this seemingly paradoxical approach actually was governed by a set of principles that had evolved over many centuries. Controlling the factors of production constituted the very essence of these principles, for thorough observation of the economic policies applied shows the Ottoman state intended to subject the basic factors of production, i.e., land, labor, capital and even entrepreneurship, to perpetual control. Indeed, never to lose these control was the state's primary aim. For instance, given the level of technology and division of labor, land probably constituted most of the overall physical capital of the imperial economy, so its ownership by the state clearly demonstrates this attitude. The state less visibly controlled the lion's share of investment of the physical capital as well. Nearly all the mines and metallurgical enterprises were owned by the state, and the dye-houses, textile workshops, and candle works, which also required considerable physical capital and investment, were directly set up and owned either by the state or by the *ewqaf*, which may be considered a form of public ownership. Any remaining enterprises were generally controlled by the members of the *askeri* class and almost always reverted to either state ownership, through confiscation, or to the *waqf* system, by voluntary donations.

Labor mobility in all sectors, from the peasantry to the craftsmen of the urban guilds, was likewise strictly controlled although the degree of control might have varied over time or from one sector to another. The price system of wages, profits, interest and rents also was either directly or indirectly controlled by the state.

Content with the control it had over the ownership, distribution,

and pricing of the factors of production, the state was generally reluctant to take the next crucial step into the process of production by actually combining the factors itself. During the classical age, the state preferred to leave the process of production to private individuals, the peasantry and the guilds and to limit itself to setting up the framework within which production and trade could take place.

The first principle of the framework was *provisionism*, the primary self-sufficient regional unit of which was the *kaza* with about five to twenty thousand inhabitants at its center and about 20 to 150 villages in its hinterland. Commodities produced there could not be sent out until the *kaza*'s own needs were fulfilled in the opinion of officials, primarily the judges. Then the excess production could be sent to institutions of the state and to Istanbul, where the former were primarily established. Only after those markets were supplied sufficiently, could it be channelled to other regions of the empire or upon payment of customs fees, abroad. In short, the purpose of production was to ensure a plentiful and cheap supply of all goods and services within the country.

The apparently innocent and universal principle of provisionism had far-reaching consequences for Ottoman foreign trade. Exports were not promoted but instead, subjected to a whole series of prohibitions, quotas and heavy taxation while imports were considered worth all the blessings of the mighty state. As long as importation helped maintain a high level of supplies in the domestic market, it was pointless to try to substitute for it. An import substitution policy was limited to supplies that might be interrupted. For example, the state always tried to possess a viable defense industry so as not to be dependent upon any foreign power.

The second major principle was *fiscalism*, the maximization and maintenance of state revenues at high levels. Because state revenue depended upon the rate at which production capacity and the volume of the velocity of money expanded in the Ottoman economy, it was extremely difficult to increase it. Fiscalism, therefore, concentrated or maintaining revenues and minimizing expenditure. Latent from the very beginning, fiscalism became more and more pronounced with the ever-growing fiscal needs of the state and turned into the basis of legitimacy in all facets of economic activity. It also supported provisionism by impeding developments that tended to disrupt it and by transferring any surplus generated in the economy to the state sector. At the same time the *mîrî mübayaa* system was

given the greatest weight in the minimization of state expenditure. It allowed the state to purchase all necessary goods and services from producers at prices substantially lower than the equilibrium prices or even at below the total cost of production. In reality it functioned as a tax in kind imposed upon the producer. The importance of the *mîrî mübâyaa* radically increased during the eighteenth century as the costs of warfare did. Of course, the state was not able to apply this system to imported goods, so a policy of import substitution was seriously considered but not accompanied by customs protection because that would raise prices and contradict the provisionist logic of the system.

The third and last principle governing Ottoman economic policy was *traditionalism*, aimed at preserving the equilibria evolved in response to the two previous principles and at obstructing the forces of change. Even as change did become a reality, traditionalism aimed to destroy it in order to return to the *status quo ante*. All decisions settling various economic conflicts applied the formula: "avoiding things in contradiction to the tradition" (*teamlü kadîme aykırı iş yapılmaması*). Thus expressed, traditionalism survived until the end of the eighteenth century as a primary reference point along with provisionism and fiscalism.

The three principles and the control of the factors of production upon which they were based functioned as a system of coordinates for decisions pertaining to economic relations and institutions during the classical era. They also formed the primary framework affecting all the forces of change, although they themselves changed so slowly, they continued to affect Ottoman decision makers long after the classical age had come to an end.

II

Having just summarized the mental framework that determined the state's approach to the economy, it now would be appropriate to describe the state of the economy, which by the end of the eighteenth century had functioned for considerable time within that framework. A substantial part of physical capital accumulation belonged to the state or to the waqf system. Small-scale enterprises dominated agriculture and trade as well as guild production. Most produced for nearby regional markets and rarely employed more than twenty workers. Division of labor and income/wealth differentiation were

very low. In fact, the differentiation between the poorest and the richest craftsmen in the same occupation barely increased from 1/4th to 1/7th throughout the eighteenth century. Meanwhile, the control of factor prices limited capital accumulation potential in the private sector to the *sarrağ* (money changers, dealer in precious metals) and tax-farmers. Because the capital accumulation potential of these groups was deliberately kept relatively large, adding to these two groups the merchants operating in the domestic and foreign trade sectors accounts for all private capital. These few, however, had been granted their opportunities for capital accumulation in order to fulfill important functions and would lose their privileges if they left those sectors. Moreover, they could not easily invest their accumulation in areas outside public finance and trade; in agriculture the *mîrî* land system did not allow for the legal establishment of capitalist units, and in the industrial sector investment opportunities were severely limited both by the egalitarian craft guilds, which the state supported, and by closely controlled profit rates.

The economic structure deteriorated under the impact of late-eighteenth-century defensive warfare. When the state, to solve the problems of the age of reforms, began to force many aspects of this structure to change, it had to alter as well its own perspective, which had been responsible for creating the structure in the first place. This saga of change also tells the story of economic performance in the age of reforms.

III

The age of reforms, summarized as the strengthening and expansion of the state, was characterized in the economic sector by a desire to enhance the sources of revenue for the central treasury. The decentralization of the eighteenth century had increased the number of intermediaries who cut into the revenue actually collected by the state, so attempts to internalize an increasing percentage of the total revenue should be considered part of the centralization process. Specifically *timars* and *zeamets* were incorporated into the tax-farm system at a quicker pace; establishment of new *malikanes* (privately held land estates, legally still considered state property) was limited and the sources controlled by the *ayans* (notables) were channelled to the central treasury. Successful implementation of these

policies was not easy and was concluded only in the first three or four decades of the nineteenth century. Meanwhile, existing taxes were expanded and new ones imposed. In the classical economy, with its relatively isolated and small-scale regional markets and control mechanisms emphasizing distribution rather than the accumulation of capital, efforts to generate new sources of revenue should be oriented towards primary production. But this was not the case. Most additional and increased taxes were imposed on the export sector, and some were imposed upon domestic trade.

A closer look at the policies applied during the first half of the nineteenth century reveals two of the principles of the classical reference system, provisionism and fiscalism, operating like the arms of a mighty scissors while the third principle, traditionalism, had been eroding since the beginning of the age of reforms. Its erosion was in conformity with the logic of a system in which traditionalism was meant to preserve the equilibrium pertaining to the other two principles. Now that application of provisionism and fiscalism necessitated a set of changes, the way was cleared for reforms. Because "*örf-i belde*" (local custom) and "*teammülü kadim*" (old practice, tradition) were deemed unsuitable for provisionism and fiscalism, a reform movement to change them was considered normal in this period of centralization. In the classical age there had been absolutely no doubt about the meaning of such terms. Towards the end of the seventeenth century, *kadim* was defined in a *kanunname* as something whose antecedent nobody remembers, *kadim olan oldur ki onun evvelini kimse hatırlamaz*, something unknown to everybody. The same concept, however, was defined in a parliamentary report dated 1859 as "obscure, incomprehensible". Thus "unknown to all" no longer referred to the antecedent of *kadim*, but to *kadim* itself. In short, *kadim* had become literally *kadim*, i.e., obsolete.

There is a profound intellectual and mental simultaneity, even a linkage, between the disappearance of traditionalism as a reference principle and the beginning of the age of reforms. The basic difference between the major policy changes traceable to earliest times, and known in Ottoman terminology as *islahat*, and those of the age of reforms lies in the very model that was targeted. All the *islahat* policies aimed at restoring an old model thought to be perfect. Now, as the idea of returning to the past was abandoned, traditionalism lost its intellectual and mental legitimacy. Of the three basic principles, it was abandoned the fastest. Changing the other

principles, by contrast, was both slow and difficult. Indeed, fiscalism not only survived but also expanded into new areas in a frantic effort to provide new sources of revenue for the state, and the gradual abandonment of provisionism, begun during the 1840s, was completed only after the 1860s.

The policy changes can be followed in the positions adopted by the Ottoman statesmen during trade negotiations. Consider, for instance, the 1838 Anglo-Ottoman Commercial Convention. Some historians, believing that it was unique and without antecedent, have charged it destroyed Ottoman industry, but actually this convention bears all the imprints of both fiscalism and provisionism. It kept import duties low (5%) and export duties high (12%). During the 1830s when the convention was being negotiated, however, Ottoman statesmen considered the 12% export duty forced on them by English opposition too low. Their attitude may be seen as an intensified expression of classical provisionism, for in the 1838 convention, under the impact of fiscalism, a four-fold increase in export duties was realized.

As the convention was being negotiated in the 1830s, many new factories powered by steam engines were being established. Most of them belonged to the state, but no effort was made to place them behind protective tariffs. These factories produced for the army clothing, shoes, and weaponry that the Ottoman private sector was not in a position to make in the quantities and quality demanded, and importation was considered too unreliable to supply. In short, because these factories had been established with provisionist and fiscalist motives, Ottoman statesmen did not even bring the concept of protective tariffs to the negotiations.

From the 1830s onward, the excess production of some of the state factories was supplied to the free markets. Expansion of industrial investment accelerated in the 1840s, increasing the number of factories producing textiles, leather, foodstuffs, glass, and paper and giving rise to new plants that produced machinery for the former. In the same period the private sector was also encouraged to establish its own factories. The most important incentive granted was a period of seven to fifteen years of certain privileges accompanied by some administrative assistance, but with the extremely rare exception of one to two years of customs exemption, incentives involving fiscal sacrifice were not considered. Indeed the customs exemption was not granted until 1850, when the frenzy of factory establishment was

about to end, and it was limited to only those factories owned by the state. A policy of raising import duties cannot yet be observed in this period. Consequently it is quite clear that there was no significant change in the fiscalist and provisionist background of this seemingly spectacular process of industrialization.

Nevertheless, change was imminent in the commercial convention of 1861, which raised import duties from 5% to 8% and reduced export duties first from 12% to 8% and then gradually to the level of 1% by the year 1869. Incorporated into the convention, this clause was a radically important change indicating the abandonment of provisionism and consideration of exports as a desirable endeavor. The fact that this stage was reached only after at least a quarter century of deficits in the balance of payments shows the profound impact of provisionism on Ottoman economic thought. With regard to foodstuffs and essential commodities, provisionism still was not altogether abandoned, but the universality of that principle, which had lasted from the classical age to the middle of the nineteenth century, now had come to an end.

Although fiscalism, too, had begun to lose its vigor and inflexibility, it continued to survive in a new more flexible form. By attempting to compensate for the revenue lost through the decline in export duties with an increase in import duties, the state was at least prepared to face the inflationary impact of abandoning provisionism and also herald relinquishment of this principle. Yet these policy changes did not amount to modern protectionism.

The industrialization effort that had started in 1827 ended in the 1850s. After this date it is difficult to observe the establishment of new state-owned factories, and most of those already in existence were being closed down by the fierce competition of imported goods. The traditional crafts guilds already had rapidly declined for the same reason during the 1840s, but when they appealed to the state for help, they ran into its usual ~~provisionist~~ ^{fiscalist} logic. Both the factories established directly by the state and the guilds were denied customs protection. Tax exemptions implying a sacrifice of the fiscalist motive also generally were not granted.

Finally the speed and the sheer magnitude of developments did have an impact in the 1860s, when protection attempts entailing fiscal sacrifice slowly were initiated. By then the depression in the crafts guilds had led to obvious unemployment and poverty, demonstrating that the reluctance to initiate tax exemptions promptly had

resulted in not only an even greater fiscal loss, but also severe damage to the social fabric. At last the state realized that fiscal sacrifice could well be compensated by an increase in income in the long run. Customs also came to be regarded as an instrument of protection in this period. Internal customs duties were abolished in 1874, and machinery imported for newly established factories was granted an exemption from duties in the same period. The idea of providing selective protection to domestic production by differentiated import taxation was grasped as well. Thus, after a long and arduous journey the last traces of the classical reference system in the Ottoman economic mind seem to have vanished.

Nevertheless, traces of its influence did not disappear entirely. Residues of the three reference principles survived in isolated manner, and if not prohibited, reappeared periodically under various names and practices suitable to circumstances. The three principles constituted the basic reference paradigm of the Ottoman economic life as developed by the elites over centuries. The Ottoman elites believed that the system was the mechanism which prevented the growth or the shrinkage or the disintegration of the economic system; they called it *Devlet-i Aliyye-i Ebed-Müddet* (Eternal life of the Sublime State). The preservation of this system was one of the key arguments which the elites used to oppose the changes necessitated by history and international forces. The contemporary changes began to be introduced after the disintegration of the economic reference paradigm. The changes introduced would open a new avenue to risks and hazards and lead to economic growth or decrease as indicated by subsequent experience. Despite basic changes which heralded the arrival of a new economic era, traces of provisionism survived into the era of the Young Turks and, into the Republic, as imports tended to prevail over exports. Fiscalism also was evident in the heavy taxation both of agriculture, until the 1950s, and of other economic activity with glaring exceptions made for those needing "paternal" state protection or being close to the government. Traditionalism also survived, not as a reference principle, but as a government predisposition to see the state as entitled to control all economic activity and to extract revenue from it. It was only in the 1980s, with Turgut Özal's premiership, that Turkey began to comply with the laws of a free market economy.

