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04/05/2020

A Comparison of Tax-Farming Institutions in the Ottoman Empire and the Kingdom of France, 1650-1800

The comparison of Ottoman fiscal institutions, more specifically the empire's tax-farms, with those found in the Kingdom France between 1650 and 1800 is not an arbitrary one. Both realms were large and populous, with the Ottoman Empire counting some 24 million inhabitants and France some 21 million[1] in 1700. And, both were formidable military powers that frequently engaged in expensive wars and whose rulers were seen, by contemporaries, as heading powerful and "absolute" monarchies. More pertinently, both entered the period similarly dependent on tax-farms for revenue collection purposes. Yet, this particular institutional arrangement only survived into the 19th century in the Ottoman Empire, having fallen out of favour in France before then. This suggests that a comparative study of these states can not only shed light on rulers' motivations for contracting out the right to collect taxes but can also shed light on how and why this institution changed over time. And that, comparing the evolution of tax-farming arrangements in these realms may offer a partial answer to the question of why, exactly, France developed modern public fiscal institutions before the Ottoman Empire. Indeed, as the following analysis makes clear, far from being archaic "intermediary institutions"[2], tax-farms represented a critical but complicated step towards economic modernization.

The Ottoman Empire and the Kingdom of France entered the 17th century with strikingly similar systems of tax collection. In both states, extensive use was made of tax-farmers, to whom the right to collect taxes was leased. In France, for example, the rights to collect the *gabelles* (a tax on salt), the *aides* (wholesale and retail taxes) and the *traits* (internal and external customs duties) were usually leased to private individuals by the state[3]. Only the *taille*, a tax on land, was levied directly by the King's own *regisseurs*. Likewise, in the Ottoman Empire, the rights to collect all manner of indirect taxes were typically leased, through

[1] A. Maddison, *The World Economy: Historical Statistics*, Paris, OECD, 2003, p. 256
[2] A. Salzmann, 'An Ancien Régime Revisited: "Privatization" and Political Economy in the Eighteenth-Century Ottoman Empire', *Politics & Society*, vol. 21, no.4, 1993, p. 394
[3] N.D. Johnson, 'Banking on the King: The Evolution of Royal Revenue Farms in Old Regime France', *The Journal of Economic History*, vol. 66, no.4, 2006, p. 967

contracts called the *iltizam*, to private individuals. A brief look at a collection of iltizam contracts studied by Murat Çizakça reveals that the Ottoman administration relied on tax-farmers to levy customs duties, taxes on the trade of salt as well as those imposed on the trade of dyes[4]. As in France, only the tax on land, the *resm-i çift*, was levied directly by *timariots* (provincial elites to whom the Sultan granted land).[5] The similarities extend beyond the types of taxes farmers were responsible for, and to the aggregate importance of tax-farming networks in both states. So, in 1650, the lease and down payments made by French tax-farmers accounted for as much as a third of the Kingdom's revenue.[6] And, while it is difficult to find perfectly contemporaneous data for the Ottoman Empire, in 1528, iltizam holders accounted for 20% of the Sultan's revenue from Anatolia, 25% of his revenue from the European provinces and as much as 80% of his revenue from Egypt.[7] This number is certainly unlikely to have fallen before 1650 given that number of iltizam multiplied in the intervening century.

The prevalence and importance of tax-farming arrangements across both of these states can be explained by the fact that they represented an effective way of overcoming some of the systemic challenges French kings and Ottoman sultans faced in collecting revenues from their sprawling empires. Foremost among these challenges was that of ensuring tax collectors were neither accepting bribes nor shirking while performing their duties[8]. While it was still possible to monitor the performance of tax collectors when it came to levying taxes on fixed assets, such as land (whose productivity and worth was measured in vast surveys), it was prohibitively expensive to monitor agents levying indirect taxes. In the absence of inexpensive monitoring methods, tax-farming provided a simple and cheap alternative. In both the Ottoman Empire and in France, the right to collect a specific tax in a certain region was sold in a competitive, English auction to the highest bidder.[9] Typically, for the small, tax-farming contracts most common in both realms in 1650, the highest bidder was either a local with extensive knowledge of the area in which they were levying the tax or an intermediary, who would subsequently

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[4] M. Çizakça, 'Tax Farming and financial decentralization in the Ottoman economy, 1520-1687', *Journal of European Economic History*, vol. 22, no.2, 1993, pp 236-237
[5] S. Pamuk, 'Institutional Change and the Longevity of the Ottoman Empire: 1500-1800', *Journal of Interdisciplinary History*, vol. 35, no.2, 2004, p. 228
[6] E. White, 'From Privatised to Government Administered Tax Collection: Tax Farming in 18th Century France', *Economic History Review*, vol. 57, no.4, 2004, p. 637
[7] E. Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change in the Ottoman Empire and France', *The Journal of Economic History*, vol. 69, no.3, 2009, p. 814
[8] M. Koyama & N.D. Johnson, 'Tax Farming and the Origins of State Capacity in England and France', *Explorations in Economic History*, vol. 51, 2014, p. 2
[9] Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change in the Ottoman Empire and France', *The Journal of Economic History*, vol. 69, no.3, 2009, p. 812-813

pass the contract on to such a person.[10] These agents did not face the same monitoring costs as the state. They knew better how to measure the value of taxes paid "in-kind" and could keep a closer watch over the agents they themselves hired.[11] The competitive nature of the auction ensured that the crown received, at least in theory, a sum close to the maximum revenue that could have been extracted from the tax over the duration of the lease. In contemporary economics parlance, tax-farming arrangements were the equivalent of a "rent contract" solution to a "moral hazard" problem.[12] Economic theory suggests tax-farming may have had another important advantage. Namely, that faced with high-interest rates and large yearly fluctuations in tax revenue, tax-farming helped risk-averse states shift the burden of risk onto tax farmers. This argument, of course, depends on the notion that the states in question were more risk averse than the agents purchasing the rights to collect taxes and that they could therefore both derive benefit from sharing risk.[13] And, while this may sound unlikely, historical evidence suggests this could have, in fact, sometimes been the case in the Ottoman Empire. According to Çizakça, in the years around 1650, 31% of *iltizam* contracts in the Ottoman Empire failed to record any change in their lease prices.[14] A closer look at these "frozen" contracts highlights a common theme. Most, such as the Somakov Steel Works Farm (frozen between 1627-1644) and the Salonica Wine Arak and Coffee Tax Farm (frozen between 1613-1623), fulfilled their lease payments by directly providing the state with military materiel. Fearful that tax-farmers would default and fail to deliver this crucial materiel should the auction price be set competitively, the state set very reasonable lease prices on these farms and thereby hoped to ensure the supply of the crucial materiel would be honoured. In such situations, when it was vital some special form of revenue be received, the state may, indeed, have been more risk-averse than individual tax-farmers. A final, important advantage of tax-farms, one as relevant in France as in the Ottoman Empire, was that they helped states avoid the sometimes steep initial and running costs of creating and maintaining a sophisticated tax bureaucracy.[15] Comparing tax-farming arrangements in the Ottoman Empire and France, then, highlights the fact that, far from being parts of a "backwards" or "inefficient" system, they represented an affordable and ingenious solution to the challenges large states faced at the time.

[10] K. Barkey, *Empire of Difference*, Cambridge, Cambridge University Press, 2012, p. 227
[11]N. Özbek, 'Tax Farming in the 19th Century Ottoman Empire', Journal of Interdisciplinary History, vol. 49, no. 1, 2018, p. 233
[12] E. White, 'From Privatised to Government Administered Tax Collection', p. 637
[13] N.D. Johnson, 'Banking on the King', p. 964
[14] M. Çizakça, 'The Ottoman Government and Economic Life', in S. Faroqhi, K. Fleet (eds.), *The Cambridge History of Turkey*, Cambridge, Cambridge University Press, 2013, p. 255
[15] M. Çizakça, 'Tax Farming and financial decentralization in the Ottoman economy', pp. 236-237

While tax-farming had its merits it also had important drawbacks. And, by the turn of the 17th century, when rising expenditures left the French crown facing a budget deficit of as much as 30% and its Ottoman counterpart facing one of around 20%, the need for reform became pressing.[16] In France, early attempts at restructuring the fiscal system were organised by Jean-Baptiste Colbert. Colbert's reforms saw the consolidation, in 1681, of the multitude of small tax-farms that had emerged in France into a single syndicate, known as the *Fermes Generales*.[17] The lease price on contracts was thereafter to be set through a process of bargaining between this monopsony and the King's administration.[18] There were two reasons for this reform, which might, at first glance, appear to disadvantage the King. In the first place, Colbert correctly predicted that a consolidation of the farms would lead to an expansion of tax revenues. It was recognised, even at the time, that the profit-maximising tax-farmer had, in Adam Smith's words, "no bowels for [those] who are not their subjects, and whose universal bankruptcy, if it should happen the day after their farm is expired, would not much affect their interest"[19]. Indeed, some of the tax-farmers operating in France were so rapacious in their pursuit of revenue that they depressed trade and, consequently, lowered the revenues other farmers could extract from their contracts (a classic negative externality).[20] By consolidating farms, Colbert hoped these negative externalities could be internalised and revenues raised. A second impetus for the reform was the French King's need for a steady source of loans. By merging the farms and relinquishing greater bargaining power to the farmers of the *Fermes Generales* the King was able to increase the size of the "anticipations" (loans made to him by farmers which he repaid by reducing future lease payments) he demanded on leases[21]. The farmers, Colbert knew, would perceive a reduced risk of the King reneging on such a contract when they were a monopsony buyer and, because the remaining farmers would now be sharing what remained of this risk equally, they would be more willing to make large loans. In a letter, Colbert warned the King that, for his plans to succeed, the latter should "not only to continue to protect the farmers as you have done, but to redouble your efforts".[22] The French response to the challenges of the late 17th century, then, was one of consolidation and reform.

[16] E. Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change', pp. 816-817
[17] M. Koyama & N.D. Johnson, 'Tax Farming and the Origins of State Capacity in England and France', p. 11
[18] E. White, 'From Privatised to Government Administered Tax Collection', p. 640
[19] A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, London, Electrik Book, 2001, p. 1215
[20] N.D. Johnson, 'Banking on the King', pp. 975-976
[21] M. Koyama & N.D. Johnson, 'Tax Farming and the Origins of State Capacity in England and France', p. 12
[22] Quoted in N.D. Johnson, 'Banking on the King', p. 980

Facing similar challenges, the Ottoman administration responded very differently. To raise revenues it introduced, in 1694, a new type of tax-farming instrument: the *Malikane*[23]. This was the equivalent of a life-long lease on a tax-farm, one that could be inherited. Undoubtedly, the primary justification for these new contracts was that by demanding, as a down payment, approximately eight times the estimated annual revenue of the farm, the state was able to borrow against future tax revenues. This quickly made much needed liquidity available to the Ottoman treasury. Additionally, it was hoped that this new, long-term contract would encourage tax-farmers to be more conscientious and less short-sighted in their pursuit of taxes.[24] Overly greedy farmers would now be punishing themselves by strangling trade in their jurisdiction and depressing their future income as a result. Unlike the French, however, the Ottoman administration made no effort to consolidate the farms, instead choosing to grow their number.

The reasons behind French and Ottoman divergence at this critical juncture deserve more attention. Unfortunately, few economic historians have studied this puzzle and, the few who have, have given us only clues.[25] One possible explanation, however, highlights the political clout and power of tax-farmers in the Ottoman Empire and contrasts it with the relative weakness of their French counterparts in the mid-17th century. Colbert's consolidation created great dissatisfaction among low-level tax-farmers, who were forced to relinquish their sometimes-lucrative farms for artificially low prices.[26] Fortunately for Colbert, however, these adversaries had little political influence. A series of *ordonnances*, passed in the 16th century, had specifically barred nobles and members of the clergy from holding tax-farming contracts in France.[27] In the Ottoman Empire, on the other hand, many tax-farmers were also members of the state's powerful military cadre. Indeed, though no information is available on the ownership of iltizam, within the first two years of their creation 61% of *malikane* contracts were purchased by members of this military elite.[28] Moreover, this was a military elite that had shown itself to be ruthless in protecting its financial interests. In 1622, Sultan Osman II had been assassinated during a revolt by the Janissaries over a proposed debasement of the

[23] K. Barkey, *Empire of Difference*, 2012, p. 232
[24] K. Barkey, *Empire of Difference*, 2012, p. 232
[25] See, for example: E. Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change'
[26] E. Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change', p. 822
[27] N.D. Johnson, 'Banking on the King', p. 973
[28] K. Barkey, *Empire of Difference*, 2012, p. 233

Empire's currency.[29] And, in 1687, 1703 and 1730, Sultans were overthrown for tampering with the fiscal-political order.[30] Complementing this theses is the fact that the Ottoman Empire never found itself in financial straits as dire as those the French crown found itself in at the turn of the 17th century. Indeed, if before the malikane reforms the Ottoman treasury faced a deficit of 20%, they were able to balance the budget by 1700. Meanwhile, in France, between 1630 and 1661 (when Colbert began his reforms) the deficit was never positive and three times fell below 70%.[31] The Ottoman administration, then, faced more severe costs and constraints and weaker incentives to reform in the latter half of the 17th century. Combined, these may explain the different trajectory its tax institutions followed in the subsequent century.

France's consolidation of the tax-farms, and the Ottoman failure to do so, would prove crucial to later developments in their respective fiscal systems. In France, the consolidated *Fermes Generales,* particularly after a final, disastrous attempt was made by John Law to abolish them in 1724, had both the incentives and security needed to confidently make large investments in their farming network.[32] By the 1780s, the *Fermes* employed some 30,000 workers across the Kingdom, including over 20,000 financial policemen.[33] Impressively, it even deployed ships, on rivers and seas, to harass smugglers looking to avoid customs taxes. Perhaps more important though, was the *Fermes'* rapid adoption and promotion of standardized weights and measures, designed to help lower monitoring costs.[34] In order to safeguard these investments, and prevent the King from suddenly reneging on his promises and commandeering this network, they also dedicated considerable resources to lobbying and made concerted attempts at "regulatory capture", paying the *Contrôleur Général des Finances* an annual salary of 50,000 livres and selling shares in the *Fermes* to the King, his wife and their closest associates.[35] The *Fermes'* greatest source of protection, however, was the instrumental role they played in feeding the borrowing habits of successive French Kings.[36]

As long as the farmers controlled the *Fermes* extensive network, the French state did not reap its full benefits (though revenues did grow impressively throughout the 18th century). And,

[29] E. Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change', p. 820
[30] A. Salzmann, 'An Ancien Régime Revisited', p. 401
[31] E. Balla & N.D. Johnson, 'Fiscal Crisis and Institutional Change', p. 816
[32] E. White, 'From Privatised to Government Administered Tax Collection', p. 656
[33] E. White, 'From Privatised to Government Administered Tax Collection', p. 647-648
[34] M. Koyama & N.D. Johnson, 'Tax Farming and the Origins of State Capacity in England and France', p. 13
[35] E. White, 'From Privatised to Government Administered Tax Collection', p. 657
[36] N.D. Johnson, 'Banking on the King', p. 982

under the *Ancien Régime*, it proved impossible to dislodge it from their grasp. It took the turmoil of the French Revolution, which saw the farmers guillotined, for their assets and network to be passed on to the state.[37] In the Ottoman Empire, the decentralised and increasingly complicated system did not provide tax-farmers with the same incentives. Individual, small-scale farmers rarely had the security or scale required to make meaningful investments in their networks. Consequently, the Ottoman state struggled to make the transition to a modern fiscal system. Instead, as late as 1774, the farm system was expanded further, through the creation of the *esham*, shares in farming contracts which made the arrangements accessible to those who had, until then, not been able to afford the down-payments on leases.[38] This innovation offered the Ottoman state only temporary reprieve, however. And, in the absence of a sophisticated monitoring network, attempts to centralise the Empire's means of collecting revenue, such as the Tanzimat reforms of 1834[39], were doomed to fail.

The comparison between the fiscal institutions of the Kingdom of France and the Ottoman Empire, then, is an enlightening one on a number of levels. It allows for a better understanding of the value of tax-farming to pre-modern rulers. Importantly, it also highlights the fact that institutions are dynamic and ever-changing and that understanding the ways in which they change is critical to understanding the development of states. Indeed, though the Ottoman Empire and Kingdom of France entered the modern era with very similar fiscal institutions, their differing responses to their respective, late 17th century fiscal difficulties meant their institutions subsequently followed very different trajectories. Finally, the comparison also suggests that the evolution of institutions is complex, contingent on political and social factors as well as economic ones, and subject to important path dependencies that might be better captured by dynamic game-theoretic models than by static ones.

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[37] E. White, 'Was There a Solution to the Ancien Régime's Financial Dilemma?', *The Journal of Economic History*, vol. 49, no.3, 1989, p. 568
[38] M. Çizakça, 'The Ottoman Government and Economic Life', p. 256
[39] N. Özbek, 'Tax Farming in the 19th Century Ottoman Empire', p. 223

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