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Institutional Change and the Longevity of the

Ottoman Empire, 1500–1800 In recent decades, economists and economic historians have identified institutions and institutional change as key variables that help explain the widely disparate economic performance of different societies during the last 500 years. Based on the successful experience of Western Europe and European offshoots, new institutional economics has argued that long-run economic change is the cumulative consequence of innumerable short-run decisions about political and economic factors that both directly and indirectly shape performance. Economic growth occurs because the underlying framework persistently reinforces incentives for organizations to engage in productive activity. The state is seen as a major player in this context. In the Western European case, as the result of political struggles and alliances, the state and associated institutions moved to provide the legal framework that reinforced incentives for economic growth.

Institutional change, however, does not usually favor the most efficient outcomes; societies rarely arrive at, or create, institutions that are conducive to economic growth. In most cases, institutions promote redistributive rather than productive activity, restricting opportunities rather than expanding them. Similarly, rather than reinforcing incentives toward productive activity, states generally act as instruments to transfer resources from one group to another or to ensure their own survival. Politics and political struggles can be detrimental to economic growth.¹

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1 Douglass C. North and Robert P. Thomas, *The Rise of the Western World: A New Economic History* (New York, 1973); North, *Institutions, Institutional Change and Economic Performance*

Focusing on the “rise of the West,” institutional economics and economic historians have paid little attention to unsuccessful or less successful cases of institutional change, especially those outside Western Europe. This study examines institutional change of a different type outside the Western European context. Ottoman institutions did not come to resemble those that gave rise to capitalism. Ottoman society and Ottoman bureaucracy brought about institutional change in selective areas—for example, military technology and organization and public and private finance—thus enabling the Ottomans to continue their rule.

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

A comparison with the other two Muslim empires of Eurasia, the Safavids and the Mughals, brings the Ottoman trajectory into sharper focus. The political economy of these three empires showed similar patterns of evolution during the sixteenth and seventeenth centuries. They all enjoyed a long period of stability, agricultural expansion, and growing prosperity during the sixteenth century, followed by severe fiscal and military difficulties and rising internal conflicts during the seventeenth century. The decline of central political institutions in all three of the empires accompanied the rise of provincial elites, who began to make a greater impact on the evolution of regional economies. During the eighteenth century, both the Mughals and Safavids disintegrated under the pressure of tribal invasions. The Mughals eventually succumbed to the British, whereas the Safavids were replaced by a regional dynasty, the Qajars. In contrast, the Ottoman Empire enjoyed a period of recovery, stability, and economic expansion

(New York, 1990); Thrain Eggertsson, *Economic Behavior and Institutions* (New York, 1990); more recently, Daron Acemoglu, Simon Johnson, and James Robinson, “The Rise of Europe: Atlantic Trade, Institutional Change and Economic Growth,” unpub. ms. (Berkeley, 2002).

from the beginning of the eighteenth century until the 1770s. Despite wars and internal conflicts from the 1770s through the 1830s, the Ottomans managed to regroup and survive into the modern era with a strong central state and many of their central institutions intact.²

In recent decades, historians of the Ottoman Empire have made considerable progress in understanding the trajectory of these institutions. Oddly, economic historians have not paid sufficient attention to either this literature or the economic institutions that sustained the large, multi-ethnic Ottoman Empire for so long. Recent studies by Jones, Cameron, and Landes, like many of their mainstream predecessors, provide surveys of non-European empires as well as explanations for the rise of the West but do faint justice to Ottoman land regimes, manufacturing interests, and state economic policies, not to mention the daily existence of ordinary men and women. The empire cursorily depicted in these accounts is a centralized, monolithic entity lacking in internal dynamism and differentiation. Landes virtually reduces the Ottoman Empire to a caricature of nomads and raiders, despotism, military conquest, corruption, and looting: “The Ottoman empire was a typical despotism, only more warlike.” From this perspective, however, the longevity of the Ottoman Empire becomes an anomaly and even a mystery. In Landes’ own words, “The empire of the Ottoman Turks proved more durable (than the Moghul Empire of India). That in itself is a mystery, because after some two hundred and fifty years of expansion (1300–1550), its downhill course should have brought about fragmentation and liquidation in a matter of decades.”³

Pomeranz recently argued that core regions of China and Western Europe did not differ from each other significantly during the eighteenth century in their technology, their level of economic development, their land and labor markets, their degree of commercialization, and even their legal and social manner of handling large accumulations of commercial and financial capital.

2 Christopher A. Bayly, *Imperial Meridian, The British Empire and the World, 1780–1830* (Reading, Mass., 1989).

3 Eric L. Jones, *The European Miracle: Environments, Economics and Geopolitics in the History of Europe and Asia* (New York, 1987; 2d ed.), 175–191; Rondo Cameron, *A Concise Economic History of the World, from Paleolithic Times to the Present* (New York, 1993), 81–83; David Landes, *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (New York, 1998), 398, 396.

According to Pomeranz, were it not for the large amounts of energy and land resources provided by the New World, Western Europe may not have experienced the industrial breakthrough that began in the second half of the eighteenth century. Whatever resemblance parts of China might have had with parts of Western Europe, eighteenth-century Ottoman social, economic, legal, and financial institutions definitely did not share them.⁴

For most of its six-century existence, Ottoman economic institutions and policies were shaped, to a large degree, by the priorities of a central bureaucracy. Until recently, Ottoman historiography viewed the empire as in decline after the sixteenth century. On the contrary, Ottoman state and society were able to adapt to changing circumstances during the early modern era, well before the nineteenth-century reforms known as *Tanzimat* or “reordering.” Pragmatism, flexibility, and negotiation enabled the central bureaucracy to co-opt and incorporate into the state the social groups that rebelled against it.

The Ottomans were flexible and pragmatic from the start. Emerging in a highly heterogeneous region populated by Christians and Muslims, Turkish and Greek speakers, the Ottomans’ success in western Anatolia and later in the Balkans during the fourteenth and fifteenth centuries owed much to their willingness and ability to adapt, to utilize talent and accept allegiance from many sources, and to make multiple appeals for support. Thus were they able to attract not only warriors to fight Christians when necessary but also Muslims and Christians to fight together for riches and power when available. The Ottomans also displayed remarkable openness to technological innovation, as evident in their early and effective use of firearms. When expanding their territory, they did not hesitate to negotiate for the loyalty of local elites if the imposition of full control by conquest seemed impossible. They also proved willing and able to borrow institutions. The early Ottoman enterprise was not a religious state in the making; it was primarily a pragmatic one. On that basis, the Ottomans were able to retain power until the modern era while many of their contemporaries in both Europe and Asia were unable to do so, al-

4 Kenneth Pomeranz, *The Great Divergence, China, Europe and the Making of the Modern World Economy* (Princeton, 2000).

though the points at which their flexibility and pragmatism were liable to break down will become obvious as well.⁵

Institutional change did not apply equally to all areas of Ottoman economic life. Nor did it affect all types of institutions to the same degree. Because the central bureaucracy was able to retain its leading position in Ottoman society and politics, landowners, merchants, manufacturers, and moneychangers exerted little influence on economic matters and, more generally, on the policies of the central government, until the end of the empire. As a result, the central bureaucracy directed most of its ingenuity toward the defense of the traditional order and its own position within it, sometimes acting to stifle institutional changes that appeared threatening. Institutional change thus remaining selective, many of the pillars of the traditional order—such as state ownership of land, urban guilds, and restrictions on private capital accumulation—remained intact until the second half of the nineteenth century. These important limitations of Ottoman flexibility, pragmatism, and adaptivity should help provide a more balanced account of the empire's strengths, which helped it to survive through the early modern era, and its weaknesses, which contributed to its disintegration during the nineteenth century, despite the acceleration of institutional changes after 1839.

ECONOMIC INSTITUTIONS Until the end of the sixteenth century, the rise of the Ottoman Empire was closely associated with military conquest. Military success, in turn, depended closely on the land-tenure regime that supported a large, cavalry-based army. The Ottoman bureaucracy always took detailed censuses of new territories to assess their fiscal potential. Even after territorial expansion slowed during the second half of the sixteenth century, agriculture continued to provide the economic livelihood for

5 Cemal Kafadar, *Between Two Worlds: The Construction of the Ottoman State* (Berkeley, 1995); Heath W. Lowry, *The Nature of the Early Ottoman State* (Albany, 2003); Donald Quataert, *The Ottoman Empire, 1700–1922* (New York, 2000), 13–36. For the Ottoman propensity to adopt new military technologies, see Jonathan Grant, “Rethinking the Ottoman ‘Decline’: Military Technology Diffusion in the Ottoman Empire, Fifteenth to Eighteenth Centuries,” *Journal of World History*, X (1999), 179–201. There is a good deal of evidence that the Ottoman state's pragmatism in noneconomic matters continued into later periods, permitting it to co-opt social groups that rebelled against it. See Karen Barkey, *Bandits and Bureaucrats, The Ottoman Route to State Centralization* (Ithaca, 1994).

close to 90 percent of the population, as well as key fiscal support for the Ottoman state. Neither the durability nor the eventual demise of the empire can be understood without attention to its agrarian institutions.

The peasant family farm was the basic economic and fiscal unit in most of the countryside of Anatolia and the Balkans, the core areas of the empire where the relatively high land/labor ratios favored smallholdings. The state quickly established extensive ownership of these lands—bestowing hereditary usufruct on peasant families, which typically cultivated individual plots with a pair of oxen—and did not relinquish it until the second half of the nineteenth century.⁶

Under the *timar* system, the *sipahis*, state employees often chosen for their wartime valor, who lived in the rural areas, collected mostly in-kind taxes from these peasant farmers and spent the revenues locally to train and equip a predetermined number of soldiers, as well as to subsidize themselves, creating a large provincial army. The Ottoman central administration did not attempt to impose the timar regime in all of its conquered territories. In many remote areas, such as Eastern Anatolia, Iraq, Egypt, Yemen, Wallachia (Romania), Moldavia, and the Maghrib, the Ottomans collected taxes but left the existing land regimes largely or completely unaltered to avoid economic disruption and popular unrest. The central government might not have had the fiscal, administrative, and economic resources to establish a new system in these areas, anyway.

This pragmatic approach was similar to Ottoman practices in other areas. As a result, the empire was comprised of zones with varying degrees of administrative control. The areas most closely administered by the capital had institutions nearly identical to those in the Istanbul region. As distance from the capital increased, institutions and administrative practices reflected the power balances between the capital and the local structures and forces. For example, land allocation and fiscal practice in Ottoman Egypt remained closely linked to the demands of irrigated agriculture along the Nile valley.⁷

6 Halil Inalcik, "The Ottoman State: Economy and Society, 1300–1600," in *idem* and Quataert (eds.), *An Economic and Social History of the Ottoman Empire, 1300–1914* (New York, 1994), 103–179.

7 For Ottoman pragmatism and flexibility in the administration of the frontier provinces,

In the urban economy, manufacturing and local trade remained under the control of the guilds. The mostly autonomous guilds sought and obtained the support of the government whenever merchants tried to organize alternative forms of production. Partly because of this support, commercial initiative remained weak in Ottoman lands. Moreover, even though the government had a reciprocal need of the independent guilds to preserve the traditional order, it was often wary of those, both Muslim and non-Muslim, that held heterodox religious beliefs.⁸

A long-standing assumption is that the use of markets and money in the Balkans and Anatolia was confined to long-distance trade and a fraction of the urban sector. Recent research has shown, however, that the urban population and some segments of the countryside were already a part of the monetary economy by the end of the fifteenth century. Even more significant was the substantial increase in the use of money during the sixteenth century, both because of the unprecedented availability of specie and the escalating commercialization of the rural economy. The upshot in the Balkans and Anatolia was an intensive pattern of periodic markets and market fairs in which peasants and larger landholders sold some of their produce to urban residents. These markets also provided an important opportunity for nomads to come into contact with both peasants and city dwellers. Nor were the Balkans and Anatolia unique in this respect. As Braudel pointed out, the same trend toward more frequent use of markets and money by large segments of the population also prevailed in the western Mediterranean region.⁹

The prohibition of interest in Islam supposedly prevented the development of credit, or at best, 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 from Islamic

see Gabor Agoston, "A Flexible Empire: Authority and Its Limits on the Ottoman Frontiers," *International Journal of Turkish Studies*, IX (2003), 15–31.

8 Suraiya Faroqhi, *Towns and Townsmen of Ottoman Anatolia: Trade, Crafts and Food Production in an Urban Setting, 1520–1650* (New York, 1984).

9 Fernand Braudel, *Civilization and Capitalism, 15th–18th Century* (New York, 1982–1984), III, 471–473; I, 365–461; Faroqhi, "The Early History of Balkan Fairs," *Südost-Forschungen*, XXXVII (1978), 50–68; *idem*, "Sixteenth Century Periodic Markets in Various Anatolian Sancaks," *Journal of the Economic and Social History of the Orient*, XXII (1979), 32–80; Pamuk, *A Monetary History of the Ottoman Empire* (New York, 2000), 74–76.

societies. Yet, even though a religiously inspired (both Islamic and Christian) prohibition against usury was common to the Mediterranean world during the Middle Ages, by the classical era, Islamic law had already devised several ways to circumvent the anti-usury prohibition, as had European law during 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. There was no insurmountable barrier against the use of interest-bearing loans for commercial credit.¹⁰

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, Jennings showed that dense networks of lenders and borrowers flourished in and around the Anatolian cities of Kayseri, Karaman, Amasya, and Trabzon during the sixteenth century. Throughout the twenty-year period of his study, he found literally thousands of court cases involving debts. Many family members, including women, borrowed from, and lent to, other family members 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* (learned men of Islam). In their dealings with the court, the participants apparently felt no need to conceal interest on loans or resort to legal tricks. Annual interest rates ranged from 10 to 20 percent.¹¹

Cash vakifs—pious foundations established with the explicit purpose of lending cash and using the interest income to fulfill their goals—constituted an important source of loans in Istanbul, the Balkans, and the Anatolian urban centers. These endowments began to win approval in Ottoman courts by the early part of the fifteenth century and had become popular all over Anatolia and the Balkan provinces by the end of the sixteenth century. An in-

10 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. For a recent discussion of the classical Islamic views on interest, see Nabil A. Saleh, *Unlawful Gain and Legitimate Profit in Islamic Law: Riba, Gharar and Islamic Banking* (New York, 1988), 9–32.

11 Ronald C. Jennings, “Loans and Credit in Early 17th Century Ottoman Judicial Records,” *Journal of the Economic and Social History of the Orient*, XVI (1973), 168–216.

teresting development especially evident during the eighteenth century was the allocation of the funds to trustees who used the borrowed funds to lend at higher rates of interest to large-scale moneylenders (*sarraḫ*) in Istanbul. The *sarraḫ* pooled these funds to finance such larger ventures as long-distance trade and tax farming.¹²

Not surprisingly, a lively debate developed during the sixteenth century within the Ottoman ulema regarding whether the cash vakif should be considered illegitimate. Those who believed that only goods with permanent value, such as real estate, should constitute the assets of a pious foundation argued that the cash vakifs contravened the Islamic prohibition of interest. Because the majority of the ulema remained pragmatic on the matter, the view that anything useful for the community was useful for Islam ultimately prevailed. Ebusuud Efendi, the prominent, state-appointed religious leader (*seyhulislam*) of the period, argued that the abolition of the income from interest would lead to the collapse of many pious foundations, a situation that would harm the Muslim community. Ottoman institutions of credit and finance retained their Islamic lineage and remained mostly uninfluenced by the developments in Europe until the end of the seventeenth century.¹³

ECONOMIC PRIORITIES AND POLICIES Late medieval and early modern states had to address a common range of economic problems, the most basic of which were related directly to the maintenance of the states themselves. Provisioning the capital city (and, to a lesser extent, other urban areas) and the armed forces, collecting taxes, regulating long-distance trade, and maintaining a steady supply of money were the leading concerns of economic policy.¹⁴

States did not pursue public interest in some abstract sense. Instead, both the goals and design of economic policies, as well as institutions related to their implementation, were shaped by the

12 Murat Çizakça, *A Comparative Evolution of Business Partnerships: The Islamic World and Europe with Specific Reference to the Ottoman Archives* (Leiden, 1996), 131–134.

13 Jon E. Mandaville, "Usurious Piety: The Cash Waqf Controversy in the Ottoman Empire," *International Journal of Middle East Studies*, X (1979), 289–308. Çizakça, *Comparative Evolution*.

14 Most societies in the late medieval and early modern periods did not have an economic sphere separate from the political, administrative, and fiscal one. Edward Miller, "France and England," in Michael M. Postan, Edwin E. Rich, and *idem* (eds.), *The Cambridge Economic History of Europe* (1963), III, 282–291.

social structure, the relationship between state and society, the needs of different social groups aligned with or represented by the state, and, more generally, social and political influences. Until late in the fifteenth century, relations between the Turkish landed aristocracy of the provinces, which was deeply involved in the territorial conquests, and the central bureaucracy, which was made up mostly of converted slaves (*devshirme*), were considerably strained; the balance of power often shifted between the two until the second half of the fifteenth century, when Mehmed II finally defeated the landed aristocracy, established state ownership over privately held lands, and concentrated power in the hands of the central bureaucracy. After this shift, the policies of the government in Istanbul began to reflect the priorities of this bureaucracy much more strongly. The influence of landowners, merchants, and money-changers on the policies of the central government remained scant.

The Ottomans conceived an ideal order that included balances between such social groups as the peasantry, the guilds, and the commercial sector. The sultan and the central bureaucracy were at the top of this order. This ideal changed as the economy and society did, but the government took pains to preserve as much of the traditional structure of employment and production as possible. It tended to regard any rapid accumulation of capital by merchants, guild members, or any other interests as a potential disruption of the existing order.

The government's attitude toward independent merchants was profoundly ambiguous. On the one hand, merchants, large and small, were considered indispensable for the functioning of the urban economy. On the other hand, their activities occasionally led to higher prices of raw materials, bringing pressure on the guild system and the urban economy in general. Hence, the central administration often felt more compelled to restrain the merchants than to protect them. Yet, controlling the merchants was much more difficult than controlling the guilds. The guilds were fixed in location; the merchants were mobile. The official attitude toward financiers and moneychangers was similar. The state tolerated, and even encouraged, the activities of entrepreneurs who were independent of the guilds only so long as they helped to reproduce the traditional order.¹⁵

15 Huri Islamoğlu and Çağlar Keyder, "Agenda for Ottoman History," *Review, Fernand Braudel Center*, 1 (1977), 31–55. Cipolla noted a virtual identity between the merchants and

In the interest of social stability, the Ottomans were intent on keeping urban areas—especially the capital city, including the army—well supplied, making them dependent on merchants. Territorial expansion and the incorporation of Syria and Egypt during the sixteenth century made long-distance trade and the control of the intercontinental trade routes critical for meeting the need for provisions. Foreign merchants were particularly welcome because they brought goods not available in Ottoman lands. The various privileges, concessions, and capitulations that the Ottomans offered them, as early as the sixteenth century, should be understood in this context. The Ottomans, however, were more favorably disposed toward imports than exports. Occasionally, foreign merchants contributed to domestic shortages by exporting scarce goods—mainly foodstuffs and raw materials—forcing the Ottomans to impose temporary prohibitions on exports.¹⁶

These priorities and policies contrast sharply with European mercantilist practices. It would be a mistake, however, to consider this concern with provisioning urban areas unique to the Islamic world. Frequent crop failures, famines, and epidemics, combined with primitive modes of transportation, led most, if not all, medieval governments to focus on the urban food supply and provisioning in general. These Ottoman priorities had strong parallels in the governments of western and southern Europe during the late Middle Ages, from the twelfth through the fifteenth centuries. Ottoman and European economic policies did not diverge until the era of mercantilism in Europe. One important reason why mercantilist ideas never took root in Ottoman lands was that the merchants and domestic producers whose ideas were so influential in Europe did not have much impact on Ottoman economic thought, despite the general trend toward decentralization of the empire during the seventeenth and eighteenth centuries. Only in

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*.” Ottoman merchants during the early modern era could not possibly have made 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*.” Carlo M. Cipolla, “Currency Depreciation in Medieval Europe,” *Economic History Review*, XV (1963), 397; Abraham L. Udovitch, “Merchants and *Amirs*: Government and Trade in Eleventh Century Egypt,” *Asian and African Studies*, XXII (1988), 53–72.

¹⁶ Mehmet Genç, “Osmanlı İktisadi Dünya Görüşünün İlkeleri,” *İstanbul Üniversitesi Edebiyat Fakültesi Sosyoloji Dergisi*, III (1989), 175–185; Inalcik, “Ottoman State,” 44–54, 179–379.

the provinces, did groups become powerful enough to exert pressure on administrators.¹⁷

SELECTIVE INTERVENTIONISM Economic historians of the Ottoman Empire have long held that interventionism was a permanent feature of Ottoman economic policies. The early Ottoman government was definitely more interventionist than either Islamic law or general practice in medieval Islamic states would seem to warrant, not hesitating to intervene in local and long-distance trade to regulate markets and ensure the availability of goods. In economic and fiscal, as well as many administrative, contexts, it often issued laws (*kanun*) even if those came into conflict with the *shariat* (Islamic law). The enforcement of regulations (*hisba*) in urban markets and price ceilings (*narh*) had their origins in Islamic tradition, but the Ottomans relied more frequently on them. Furthermore, so far as provisioning the army and the urban economy was concerned, the state often required merchants to deliver some of the more important goods at fixed prices.¹⁸

Nonetheless, priorities and intentions do not always result in implementation. Mixed success in the area of intervention inevitably led Ottoman authorities to recognize the limitations of their power. As a result, Ottoman governments moved away from the extreme position of interventionism espoused during the reign of Mehmed II (1444 and 1451–1481) toward more selective interventionism during the sixteenth century.

Unfortunately, this development has gone largely unnoticed

17 Miller, “France and England,” 290–340; Cipolla, “The Italian and Iberian Peninsulas,” in Postan, Rich, and Miller (eds.), *Cambridge Economic History of Europe*, III, 397–429. The Ottomans were not unaware of mercantilist thought. Naima, an early eighteenth-century historian, for example, defended mercantilist ideas and practices, arguing that if the Islamic population purchased local products instead of imports, coinage would stay in Ottoman lands (Naima [ed.] Zuhuri Danisman and Danisman Yayınevi], *Tarih-i Naima* [Istanbul, 1968], IV, 1826–1827; VI, 2520–2525). For mercantilism in Europe, compare F. Eli Heckscher, *Mercantilism* (London, 1955; rev. 2d ed.); Donald C. Coleman, *Revisions in Mercantilism* (London, 1969); Robert B. Ekelund, Jr., and Robert F. Hebert, *A History of Economic Theory and Method* (New York, 1990), 42–72.

18 Genç, “Osmanlı İktisadi Dünya Görüşü”; Sabri Ülgener, “İslam Hukuk ve Ahlak Kaynaklarında İktisat Siyaseti Meseleleri,” in Kenan Matbaasis (ed.), *Ebulula Mardin’e Armağan* (Istanbul, 1949), 1151–1189; 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, “Bazi Büyük Şehirlerde Eşya ve Yiyecek Fiyatlarının Tesbit ve Teftişi Hususlarını Tanzim Eden Kanunlar,” *Tarih Vesikalari*, I/II (1942/1943).

by scholars who continue to refer to laws issued by Mehmed II and his immediate successors as examples of a chronic governmental intervention in the economy. The inability of many historians to note the policy shift is due primarily to a state-centered perspective. But archival evidence has also misled historians to exaggerate both the frequency and the extent of state intervention in the economy. Not all of the available material is truly representative. Every government intervention was typically recorded as an order to a local judge (*kadi*) or some other authority. However, no documents exist for the countless 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 were permanent fixtures of most markets at most locations across the empire.

The official price-ceiling (*narh*) lists are a perfect case in point. Despite their apparent ubiquity in the court archives, they were hardly as common as most historians have assumed them to be. Recent searches through all of the more than 1,000 registers of three Istanbul courts—those of the Old City, Galata, and Üsküdar from the fifteenth through mid-nineteenth century—indicate that *narh* lists were not prepared regularly. They were issued primarily during periods of extraordinary instability and distress—wars, crop failures, and other detriments to the food supply, as well as such monetary crises as the debasement or reform of coinage—when prices, especially food prices, tended to show sharp fluctuations or upward movements. In the absence of such problems, however, local administrators did not issue *narh* lists for long intervals, sometimes decades.¹⁹

Another bias is related to the fact that a large part of the available evidence pertains to state intervention in the economy of the capital city, which should not be construed as evidence of conditions elsewhere in the empire. Istanbul was unique both in size and political importance. With its population approaching 500,000, it was the largest city in Europe and West Asia during the sixteenth century. Like other extraordinarily large cities, it tended to receive far more economic attention from the government than less-populated and less-important urban centers, where the state's

19 *Narh* lists were issued most frequently during from 1585 to 1640 and from 1785 to 1840—both periods of monetary instability. Pamuk, *Five Hundred Years of Prices and Wages in Istanbul and Other Cities, 1469–1998* (Ankara, 2000).

presence was not as strong, and authorities, who were appointed by the center, were more willing to cooperate with powerful local groups.²⁰

Examples from Ottoman monetary practices confirm the Ottoman tendency to rely on markets and local practices in most economic matters. Until the sixteenth century, Ottoman territories in Anatolia and the Balkans had a unified monetary system based on the gold *sultani* and the silver *akçe*; on the lowest rung were copper coins used for small transactions. When the Ottoman state expanded into a full-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 different patterns of trade, already had well-established currency systems of their own. In these areas, the Ottomans pursued a two-tiered approach to money and currency. For both symbolic and economic reasons, the *sultani* became the only gold coin in the empire in the sixteenth century. As the ultimate symbol of sovereignty, it helped to unify the empire from the Balkans to Egypt and the Maghrib. Ever the pragmatists, the Ottomans kept the *sultani*'s weight and fineness identical to those of the Venetian ducat, which had become the accepted standard of payment in long-distance trade across the Mediterranean and beyond.

The central government allowed existing silver coinage in newly conquered territories to be used, with modification, as the leading means of payment in daily transactions and, to some extent, in long-distance trade—mainly to avoid economic disruption and popular discontent. But the central government may not have had the fiscal, administrative, and economic resources to consolidate silver coinage throughout the empire. Hence, the silver coinage minted in the new territories from Mesopotamia to Egypt and Tunis began to bear the name of the sultan, though its designs and standards, as well as its respective names, adhered to the pre-Ottoman precedents. Earlier styles and types of copper coinage persisted in a similar manner.

20 Istanbul was a large consuming city, dependent on its vast hinterland. The classic work on the economy of the capital city and the nature of state intervention in it remains Robert Mantran, *Istanbul dans la seconde Moitié du XVIIe Siècle* (Paris, 1962), 233–286. See also Inalcik, “Ottoman State,” 179–87; *idem*, “Bursa and the Commerce of the Levant,” *Journal of the Economic and Social History of the Levant*, III (1960), 131–147; Masters, *Origins of Western Economic Dominance*; Daniel Goffman, *Izmir and the Levantine World, 1550–1650* (Seattle, 1990).

The exchange rates of the Ottoman and foreign gold coins, expressed in terms of the local silver unit, was determined by the markets, subject to changes in silver content of the currency, fluctuations in the gold–silver ratio, and a host of other factors. The state encouraged the circulation of all types of foreign coin to facilitate payment in local markets. The government did not legally establish a fixed rate of exchange between the gold and silver coins or a fixed gold–silver ratio around which the face value or the standards of both type of coins would be determined, leaving them for local markets to determine. The virtue of this system was its flexibility. As long as the markets set these exchange rates, and the government could accommodate them quickly enough, none of the coins in use was likely to be over- or undervalued and thus to disappear. In this context, as well as in the general economy, when the biases of archival evidence and the limitations of state power are taken into account, Ottoman policy toward commercial activity looks less like permanent, comprehensive interventionism and more like selective interventionism.²¹

EVOLUTION OF FISCAL INSTITUTIONS The evolution of Ottoman fiscal institutions during the seventeenth and eighteenth centuries provides a good example of the Ottoman state’s ability to face social and political challenges pragmatically and flexibly. Although European banking houses regularly made loans to kings, princes, and governments during the late medieval and early modern periods, such transactions transpired differently in the Islamic world because of restrictions on interest. Ottoman loans took the form of tax-farming arrangements; individuals possessing liquid capital assets lent to the government in return for the right to farm the taxes of a given region or fiscal unit for a certain amount of time. Tax-farming dominated the Islamic world from the Mediterranean to the Indian Ocean, from the earliest days through the early modern period.

From the outset, the Ottomans relied on tax farming for the collection of urban taxes. Until the late sixteenth century, however, agricultural taxes—the largest share of tax revenues—were collected locally and mostly in kind within the timar system. Thanks to the considerable revenue obtained through rapid terri-

21 Pamuk, *Monetary History*, 66–76, 88–111.

torial expansion, the state did not feel the need to increase collection at the center. Documents show evidence of the state taking out short-term loans during the sixteenth century, mostly from Greek and Jewish financiers, who, by virtue of these services, gained the inside track on some of the most lucrative tax-farming contracts.²²

Changes in military technology during the sixteenth century and the need to maintain larger, permanent armies at the center, however, increased pressure on the state to collect a larger part of the rural surplus at the empire's center. As a result, the timar system gradually subsided in favor of tax farming; tax units were auctioned in Istanbul. During the seventeenth century, bureaucrats in the capital and provincial groups began to share tax-farming revenues with the central government. Although this shift had been designed to increase cash receipts at the empire's core, the decline of state power vis-à-vis the provinces reduced the expected benefits.²³

Further deterioration of state finances during the seventeenth century forced the central government to take greater advantage of the tax-farming system for the purposes of domestic borrowing. The central government began to increase the length of tax-farming contracts from one to five years, and even longer, especially during war when the fiscal pressures were greatest. It also demanded an increasingly higher fraction of the contract's auction price in advance. Tax farming thus converted to a form of domestic borrowing, for which tax revenues served as the central government's collateral.

With the introduction of the *malikane* system in 1695, revenue sources began to be farmed out on a lifetime basis in return for a large initial payment and regular annual payments thereafter. One rationale frequently offered for this contract extension was the state's hope that tax contractors would take better care of the peasant producers, the primary tax source, and try to achieve long-term increases in production. In fact, the *malikane* system allowed the state to use tax revenues as collateral and to borrow on a longer term.²⁴

22 Inalcik, "Ottoman State," 212–214.

23 Linda T. Darling, *Revenue-Raising and Legitimacy: Tax Collection and Finance Administration in the Ottoman Empire, 1560–1660* (Leiden, 1996); Inalcik, "Military and Fiscal Transformation in the Ottoman Empire, 1600–1700," *Archivum Ottomanicum*, VI (1980), 283–337.

24 Erol Özvar, *Osmanlı Maliyesinde Malikane Uygulaması* (Istanbul, 2003); Genç, "A Study of

These innovations conferred even greater importance on the financing of contracts. Private financiers began to play an increasingly important role in the tax-collection process. Behind many of the individuals, often Muslim, who joined the bidding at tax-farming auctions, was a partnership that included financiers and agents whose intention was often to divide the large initial contract into smaller pieces for sub-contracting. Non-Muslims were prohibited from directly holding most malikane contracts, but Greeks, Jews, and eventually Armenians served eminently as financiers, brokers, and accountants for them. These arrangements were mostly in the form of Islamic business partnerships involving both Muslims and non-Muslims.²⁵

During the eighteenth century, 1,000 to 2,000 individuals based in Istanbul, together with 5,000 to 10,000 others in the provinces, and innumerable contractors, agents, financiers, accountants, and managers, controlled the lion's share of the state's revenues. This grand coalition constituted a semi-privatized but interdependent component of the regime. Many provincials were able to acquire, and transfer to the next generation, small- and medium-sized malikane shares on villages so long as they remained in the good graces of local administrators or their Istanbul sponsors. For both well-connected individuals in the capital city and those in the provinces, obtaining government tax revenues was more lucrative than investing in agriculture, trade, or manufacturing. This mutually profitable relationship between the central and the provincial elites is crucial for understanding how the central state maintained some control in the provinces long after its military power there had faded.²⁶

Significantly, these changes in the tax-collection and revenue-sharing system did not alter the legal basis of land ownership until the nineteenth century. Despite the rise of provincial elites, most agricultural lands remained *miri*, or state-owned; peasant households held the usufruct while the sipahis gave way first to tax farmers and then malikane owners.

The malikane system led to a decline in state revenues be-

the Feasibility of Using Eighteenth Century Ottoman Financial Records as an Indicator of Economic Activity," in Huri İslamoğlu-İnan (ed.), *The Ottoman Empire and the World Economy* (New York, 1987), 345–373.

25 Çizakça, *Comparative Evolution*.

26 Ariel Salzman, "An Ancien Regime Revisited: 'Privatization' and Political Economy in the Eighteenth Century Ottoman Empire," *Politics and Society*, XXI (1993), 393–423.

cause of the inability of the state to regain control of the revenue sources after the death of the individuals who had purchased them. From the 1770s onward, the central government began to experiment with other methods of tax collection and domestic borrowing. Rising military expenditures and increasing fiscal constraints during wartime were once again responsible for institutional changes. The war with Russia in 1768 to 1774 exposed Ottoman military and financial weaknesses dramatically. In its wake, the financial bureaucracy started a new but related initiative of long-term domestic borrowing called *esham*. In this system, the annual net revenues of a tax source were specified nominally and divided into a large number of shares to be sold publicly for the lifetime of the buyers. Tax farmers continued to collect the annual revenues of the source. The *esham* generally sold for six to seven times the annual net payments, which remained fixed. As the linkage between the annual government payments to *esham* holders and the underlying revenues of the tax source weakened, the *esham* increasingly resembled a life-term annuity, which was also popular in many European countries of the period.²⁷

One motivation for the new system was to create a larger pool of smaller-scale lenders beyond the limited number of large financiers who tended to dominate the *malikane* auctions. However, the state's inability to control or limit the sales of the *esham* between individuals and to prevent 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 during fiscal crises when additional funds had to be secured with little regard for their long-term costs.²⁸

The evolution of Ottoman fiscal institutions through the *malikane* and *esham* systems of the seventeenth and eighteenth centuries illustrates the state's ability to mitigate its own administrative limitations by entering into a pragmatic alliance with elites and financiers in the capital city and in the provinces. In the early part of the nineteenth century, however, the central government, supported by new technologies and a better military, was able to re-assert its power over the provinces. In the 1830s, it pulled many of the *malikane* contracts back to the center, assigning collection

27 Yavuz Cezar, *Osmanlı Maliyesinde Bunalım ve Değişim Dönemi: XVIII. yy.dan Tanzimat'a Mali Tarih* (Istanbul, 1986), 81–83; Genç, “Esham,” *İslam Ansiklopedisi*, XI (1995), 376–380.

28 Cezar, *Osmanlı Maliyesinde Bunalım*, 128–134, 198–200.

of their revenues once again to tax farmers, only to phase out the system completely during the 1840s with a larger package of administrative and economic reforms. Its attempt to eliminate tax farming and collect rural taxes directly, however, failed because of its own administrative limitations. Yearly tax farming continued until World War I. Nonetheless, the power of the provincial partners steadily declined. The centralization of the nineteenth century helped to raise the central government's share of the tax revenues from about 2 to 3 percent of the underlying economy (GDP) during the late eighteenth century to 10 to 12 percent on the eve of World War I.²⁹

Despite growing research, the causal connections between the evolution of Ottoman public finance, as outlined herein, and that of its European counterparts during the eighteenth century have not yet received due regard. The parallels between the two are striking. Increasing economic and financial integration with Europe during the eighteenth century appears to have brought about significant changes in Ottoman institutions of public finance. By contrast, changes in the institutions of private finance during this period were limited to those employed by Europeans and non-Muslim subjects of the empire.

LONG-TERM TRENDS IN STANDARDS OF LIVING Evidence about the long-term performance of the Ottoman economy is by no means inconsistent with the argument that selective institutional change enabled the Ottomans to maintain their empire far longer than should have been expected. A basic indicator of Ottoman economic performance during the early modern era is the empire's long-term trend in per capita income relative to that in Western Europe. With the exception of a handful of countries, however, estimates for per capita GDP for the period before 1820 are difficult to construct and not sufficiently reliable. In the absence of per capita GDP series, many economic historians have used urban wages, more specifically, real wages of skilled and unskilled construction workers, as a proxy. Despite many valid objections, real wage series offer the only solid information about living standards in many parts of the world before 1800.³⁰

29 Estimates are based on a series of central government budget documents and our estimates of per capita income in the Ottoman Empire.

30 Even if the representative wage is accepted as an adequate proxy for the annual per capita earnings of labor, it would not be a good proxy for income per capita without the further as-

It is currently impossible to comment about changes in the empire's rural population's standards of living, but evidence about long-term urban trends in real wages during these centuries is beginning to emerge from the Ottoman archives. A recent study of the real wages of construction workers in Istanbul and other cities indicates that Ottoman real wages were comparable to those in most parts of Europe, though about one-third lower than those in northwestern Europe during the sixteenth century. This pattern prevailed until after the Industrial Revolution. After declining by 30 to 40 percent during the sixteenth century, probably due to population growth, urban real wages in the Ottoman Empire remained roughly unchanged until the second half of the eighteenth century, when they began to rise. Around 1800, urban wages in the Ottoman Empire were 10 to 20 percent lower than their levels around 1500.³¹

Per capita incomes began to rise after the Industrial Revolution, first in northwestern Europe and then in other parts of Europe. As a result, the gap in levels of per capita GDP between the Ottoman Empire and many parts of Europe began to widen after 1820. Institutional changes and integration into world markets, however, combined to create a slow but significant trend of economic growth in the Ottoman Empire during the decades leading up to World War I. Per capita incomes probably rose at an average of less than 1 percent per annum after 1880. Export-oriented agriculture, which mainly involved commercial coastal regions and port cities, was the leading sector. Estimates place per capita incomes for 1913 in the range of 12 to 14 then current pounds sterling, or more than \$1,000 in parity-adjusted 1990 U.S. currency, leaving average incomes in the Ottoman Empire below those of most countries in southeastern Europe, but above those of Egypt

sumption that factor shares across countries were similar. In many parts of Europe and Asia during the early modern era, incomes of households were often determined by changes in employment levels; participation ratios of men, women, and children; and, above all, non-market incomes. Despite these qualifications, the link between wages and the living standards remains. A decline in real wages resulted in a decline in living standards or household welfare because more labor had to be supplied to buy the same amount of goods. Jan Luiten Van Zanden, "Wages and the Standards of Living in Europe, 1500–1800," *European Review of Economic History*, III (1999), 175–198; Jan de Vries, "The Industrial Revolution and the Industrial Revolution," *Journal of Economic History*, LIV (1994), 249–270.

31 Suleyman Ozmuur and Pamuk, "Urban Wages and the Standards of Living in the Ottoman Empire, 1469–1914," *Journal of Economic History*, LXII (2002), 293–321.

and Iran. Ottoman urban wages reflected these upward trends, increasing by two-thirds from the late eighteenth century until World War I, even as the real-wage gap with northwestern Europe began to widen after the Industrial Revolution. On the eve of World War I, the real wages of urban construction workers in the Ottoman Empire were about 40 percent above their levels in 1500, but the purchasing power of urban wages in northwestern Europe was two to three times higher than its Ottoman counterpart.

The real-wage series also point to a modest but statistically significant upward trend in Ottoman urban wages dating back to the sixteenth century, which suggests a modest but steady rise in demand for labor. It is not easy to draw conclusions from this finding because the existing literature does not point to a long-term growth trend, especially for the period before 1850. This new evidence, however, raises the possibility of a slow and modest rise in productivity around the eastern Mediterranean before the Industrial Revolution. Increased efficiency and/or the diffusion of new technology from Western Europe may help explain this trend. These indications that Ottoman standards of living improved after the sixteenth century are consistent with recent arguments in Ottoman historiography that the Ottoman Empire did not simply and irreversibly decline after 1600. Rather, as recent literature emphasizes, the Ottoman state, from the seventeenth through the nineteenth century, evinced an uncanny ability to reinvent itself and reorganize society in the face of changing circumstances.³²

Economists and economic historians have recently identified institutions and institutional change as key variables that help to explain the widely disparate economic performances of different societies during the past 500 years. Based on the successful experience of Western Europe and European offshoots, the new institutional economics shows that long-run economic growth requires an underlying framework that constantly reinforces incentives for organizations to engage in productive activity. But a society rarely arrives at, or creates, institutions that are conducive to economic growth out of thin air. While fixating on the “rise of the West,”

³² *Ibid.*, 317.

institutional economics and economic historians have not paid sufficient attention to other examples of institutional change, especially those outside Western Europe—the Ottoman Empire being a case in point. This study of long-term changes in the Ottoman Empire's economic institutions, as well as its economic performance, reveals that the state's pragmatism, flexibility, and willingness to compromise, even before the nineteenth-century Tanzimat reforms, enabled the empire not just to persist but also to grow—despite its many challenges, both internal and external—while many of its contemporaries in Europe and Asia were unable to do so.

Resourceful as the Ottomans were, however, the dominance of the central bureaucracy in society and politics had a detrimental effect on many areas of Ottoman economic life. The influence of landowners, merchants, manufacturers, and moneychangers on the government remained limited. Despite the general trend toward decentralization of the empire during the seventeenth and eighteenth centuries, merchants and domestic producers—the leading proponents and developers of mercantilist policies in Europe—never became powerful enough in the empire to sway the Ottoman government to deviate from its traditional ways.

Before the Industrial Revolution and the European expansion of the nineteenth century, the Ottoman central bureaucracy engaged in a power struggle with the notables of the provinces for almost two centuries. Yet, the *ayan* (provincial notables) did not establish alternative institutions and mechanisms of capital accumulation. Despite their interests in trade, agriculture, and manufacturing, tax farming remained the most lucrative enterprise for them. In the early part of the nineteenth century, the center was able to re-assert its power over the provinces. The well-known reforms of the nineteenth century are best understood as attempts to maintain the privileged position of the center, as well as the territorial integrity of the empire.

The central bureaucracy reserved most of its pragmatism and flexibility, first, for defense of the traditional order and, second, for its own survival. Many of the traditional institutions, such as state ownership of land, the urban guilds, subsidy of the army and urban economy, selective interventionism, and, most important, restrictions on private capital, remained intact until the nineteenth century. Selective institutional change may have enabled the

Ottomans to survive into the modern era, but it did not further capitalist economic development or new forms of economic organization. These significant limitations of Ottoman pragmatism and flexibility help to explain the disintegration of the empire despite the many timely and extensive institutional changes that took place during the nineteenth century.