

# The Ottoman Public Debt in the Economic History of Russian Turkology

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## ABSTRACT

Russian historiography of Ottoman and Turkish studies contains a broad range of works devoted to socio-economic development. Though financial issues in general and the Ottoman debt problem in particular were subject of turkological interest of Russian scholars, they lacked specialized studies on it, being a part of the large scope of socio-economic works. However, due to the concern to the Ottoman relations with European Powers in the XIX – beginning of the XXth centuries the Ottoman debt during the Ottoman epoch has been studied rather well. In comparison, the field of the Ottoman debt during the Turkish Republic has been relatively undeveloped. This article aims at historiographical analysis of the Ottoman debt problem in Russian Turkological studies of the XX century. It reveals different approaches to the subject under research, marks some academic disagreement on particular matters but in general demonstrates currency of the debt problem.

**Key Words:** Ottoman debt, Ottoman Public Debt Administration, Russian historiography, “old school”, “new school”, Soviet researchers.

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## Rus Ekonomi Tarihçilerinin Eserlerinde Osmanlı Dış Borçları

### ÖZET

Rusya'da Rus tarihçileri tarafından Osmanlı Devleti ile Türkiye'nin ekonomik ve toplumsal gelişmelerine ait çok sayıda çalışma yapılmıştır. Genel anlamda Osmanlı maliyesi özel anlamda ise Osmanlı dış borçları Rus araştırmacılarının da ilgisini çekmiştir. Ancak, Osmanlı Devleti'nin sosyal ve ekonomik durumu bu çalışmalar da geniş çaplı bir araştırmadan ziyade genel hatları ile ele alınmıştır. Rus ekonomi tarihçilerinin eserlerinde çoğunlukla Osmanlı dış borçları sorununun Osmanlı dönemi üzerinde ağırlıklı olarak durulmuş, Türkiye Cumhuriyeti dönemi hakkında pek fazla bilgi verilmemiştir. Bununla birlikte Rus araştırmacılarının yakın dönem çalışmalarında bu eksikliğin giderilmeye çalışıldığı görülmektedir.

Bu makalede yakın dönem Rus ekonomi tarihçilerinin eserleri incelenmiş, bu eserlerde yazarların Osmanlı dış borçlar sorununa nasıl baktıkları, birbirlerinden farklı ve ortak yaklaşımlarının neler olduğu üzerinde durulmuştur. Osmanlı Devleti'nin Kırım Savaşı esnasında ilk defa dış borç alması ile başlayan ve Duyun-ı Umumiye'ye giden borçlanma süreci, bu borçların Türkiye Cumhuriyeti'ne devretmesi ve ödenmesinin Rus araştırmalarında nasıl yer aldığı yansıtılmaya çalışılmıştır. Makalede Rus araştırmacıların eserleri ışığında borçlar sorunu ele alınmış, farklı yaklaşımlar akademik bakış açısından değerlendirilmiştir.

**Anahtar Kelimeler:** Osmanlı borçları, Osmanlı Kamu Borç Yönetimi, Rusça tarihçilik, "eski okul", "yeni okul", Sovyet araştırmacılar, Duyun-ı Umumiye.



The Ottoman public debt—its origins and the ways in which it was settled—has been an important subject in Turkish studies. It interests not only Turkish researchers but also Western researchers specializing in the history of finance. The earliest studies of the Ottoman public debt were published in the beginning of the 20<sup>th</sup> century in France, Turkey's main foreign creditor. It was in France that the origins of the debt, the areas in which the loans were used, and the establishment of the Ottoman Public Debt Administration were matters of practical necessity.

A neighbor of the Ottoman Empire, the 19<sup>th</sup>-century Russia was also keenly interested in the Empire's geopolitical issues and its confrontation with European powers. Information about the Empire grew as it was fed by traveling Russians and by those who remained in the Ottoman Empire either by choice or as prisoners of war. Karl Marx noted that "in Russia, a country of semi-Asiatic social conditions, rituals, traditions and institutions, there are enough people who can well understand the true situation of Turkey, as well as its true character."<sup>1</sup> One such man was P. A. Chikhachev, a geographer and traveler who spent in Asia Minor some twenty years. A defining characteristic of his studies was that he did not limit them to subjects of natural science. He had a profound interest for economic and financial issues, concentrating on the Western European colonial policy and the so-called "Eastern Question."

He pointed out, correctly, that the Ottoman economy was incapable of meeting the state's needs that they grew dynamically along with the growth of military, political, economic, and cultural interactions with the West. Just the expenses of the Sultan's Imperial court by themselves were tens of times higher by the end of the 1850s than they had been in the 1820s and 1830s. During the rule of Sultan Abd Al-Aziz (from 1861 to 1876) the court's expenses grew even more. On average they were around 30 million French francs (1,290,000 Turkish liras) annually. For comparison, during the same years the Russian Emperor's court spent 26,6 million francs (1,144,000 Turkish liras); the French court 26,5 mil-

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1 K. Marx-F. Engels, **Sochinenia**. İzdaniye 2, Vol. 9, Moskva 1954, pp.20-21.



lion francs (1,139,500 Turkish liras); the English Queen 11,75 million francs (505,250 Turkish liras); and the President of the United States 124,000 francs (5,332 Turkish liras). (In XIX FF 1 was equal to TL 0,043.) According to Tchihatchef's data, real expenses of the Sultan's court of that time consumed about one-seventh of all of the Empire's revenue. In England it was only one two-hundredth, in France one-fiftieth, in Austria one-thirtieth, and in Russia one-twentieth of the state's revenue<sup>2</sup>.

The Foreign Ministry of Russia paid close attention to the Ottoman Empire's fiscal situation. The then *chargé d'affaires* in Istanbul E. P. Novikov wrote a "Note On Turkey's Finance" to Foreign Minister A. M. Gorchakov. He reported a noticeable reduction in economic independence of the Empire's government due to the Imperial Ottoman Bank's having obtained the rights to collect some state revenues as collateral against advances given to the Treasury. "Thus, the Bank has acquired rights that are encroaching onto the sovereign's independence. This is a precedent that will be invoked in the future under the smallest pretext... This is precisely the road that will, sooner or later but most certainly, lead to an administrative and pecuniary conquest, which will be only too typical for the spirit and tendencies of the times we live in."<sup>3</sup>

The main themes developed by Russian researchers of Turkey's modern and post-modern history were themes of the national liberation movement. Problems of economic development were considered in connection with national liberation's socio-economic causes. M. S. Meyer in his "Turkey as a Model of Dependent Development" explained two different angles from which researchers looked at the Ottoman public debt: they were either of the "old" or "new" school<sup>4</sup>. The "old

2 P. Tchihatchef, *Velikie Derjavi i Vostochny Vopros*, Moskva 1970, p.191.114.

3 I. Fadeeva, "Finansovoe Polozheniye Turcii v 50- 60-h Godah XIX veka", *Voprosy Ekonomicheskogo Razvitiia Stran Blizhnego I Sredn'ego Vostoka*, Moskva, 1979, p.

4 M. S. Meyer, "Turcia – Model' Zavisimogo Razvitiya. (Obzor Sovremennoi Turetskoi i Zapadnoi İstoriografii)", *Sbornik Obzorov İNİON. Kritika Konsepciy Zavisimogo Razvitiya*, Moskva 1983, pp.77 – 113.



school” researchers had traditional views seeing the Ottoman debt through the “imperialist concept” dominant in the Soviet times. According to the concept, capitalist states used various institutions—concessions, capitulatory regimes, foreign banks, and unequal exchange—to bring the Ottoman state to the inevitability of borrowing foreign loans, which at the end turned out to be ineffective anyway.

This is what Karl Marx wrote about this period: “Western powers are grabbing for Turkish money. For the first time the Ottoman Empire acquires a national debt, but no credit. It is now in the position of a landowner who not only mortgages his land for a loan, but gives the creditor the right to use the money. The only thing left is to give the creditor the mansion too.”<sup>5</sup>.

The “old school” is represented by outstanding soviet scholars such as A. Novichev, Yu. Petrosyan, B. Danzig, Yu. Klyuchnikov, A. Sabanin, I. Alibekov and A. Miller. They attempted to interpret political and socio-economic development of the Ottoman Empire and Turkish Republic from Marxist approach. Their attention was concentrated on the ways and methods of economic enslavement of the Ottoman state by Western capitalistic powers. Stressing specific character of the country’s dependence the researchers gave a detailed account of its foreign economic ties, and foreign debt, in particular. Their works outlined the main stages of transformation of the Ottoman Empire to the semi-colony of imperialism, marked economic, social and political consequences of this process. In accordance, they regarded the Ottoman debt problem as a complicated economic issue which had a negative political and historical meaning. They viewed the establishment of the Ottoman Public Debt Administration (OPDA) as the evidence of fiscal collapse and enslavement of the Ottoman Empire by foreign investors, and respectively, the Administration’s actions negatively as aggravating the country’s already deplorable plight. In their opinion, the OPDA formed a state within a state—one

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<sup>5</sup> Marx-Engels, *ibid*, vol. 23, p.764.



that in economic terms was much more successful than the rest of the Empire crippled by its old-fashioned methods of economy.

The results of the Soviet turkologists' research were best reflected in works by A. Novichev. His "Study of Turkish Economics before World War I" (1937) is worth special mentioning. It differs from research by other authors in that it contains a circumstantial survey of measures implemented by Ottoman State and detailed analysis of its general economic climate. Still, Novichev called the period of the OPDA's management the darkest chapter of Turkish history. He stated that this organization attempted to squeeze as much profit as possible out of the Ottoman Empire exploiting its fiscal difficulties. "The imperialists at the Ottoman Public Debt Administration used the old methods of Turkish feudal lords to rob their population. But they also added European techniques of taxation. As result, their revenues grew year after year while the network of their operatives spread its tentacles throughout the country—a gigantic octopus enveloping prey and sapping it of its life"<sup>6</sup>.

Accusing the creditors of lying, this is how A. Novichev explained why they would lower the Ottoman Empire's debt payments to nominal amounts: "[...] foreign capitalists faced the fact that Turkey was unable to pay spurious sums on the books; they had to limit their appetite to getting payments for the amounts Turkey had actually got. [...] While Turkey received only 3 billion francs, its debt was estimated to be 5,3 billion." "By the time the decree was published," continued Novichev, "Turkey's real debt, excluding what had been paid off, was 2124,664,800 francs. However, per the decree, not counting advances and internal debts, Turkey's debt was calculated at 2460,930,850 francs. That is, the country was cheated out of 336,3 million francs, or 15%"<sup>7</sup>.

A. Novichev was the first to note that the Administration had a predecessor in the Six Indirect Taxes Service established by an agreement be-

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6 A. Novichev, *Ocherki Ekonomiki Turcii do Mirovoi Voini*, Moskva–Leningrad 1937, p.200.

7In XIX FF 1 was equal to TL 0,043, Novichev, *ibid*, p.196.



tween Galata bankers (the financial center of Istanbul) led by the Imperial Ottoman Bank. According to this arrangement, the government handed the banks a 10-year complete monopoly over revenues from the salt and tobacco duties, stamp tax, taxes on fishing in the Istanbul waters, and a tithe on the silk of Adrianople, Bursa, and Samsun<sup>8</sup>. “After the debts were settled by decree in 1881, the Sultan’s government took over financial control; but in doing so it didn’t relieve itself of financial need. To satisfy it, it fell into the same old rut”<sup>9</sup>.

Yu. Petrosyan who was mainly researching socio-economic history of Turkey from the Middle Ages till Modern period saw the establishment of the OPDA as *de facto* foreign control over the national economy and finances. He called the Administration’s staff “undisguised instrument of foreign expansion”<sup>10</sup>. He considered the Sultan’s policy of attracting foreign investors a deleterious way of replenishing the treasury. He saw foreign loans as bondage: “After the Crimean War, foreign loans became some of the main tools to put the Ottoman Empire into economic shackles. This deleterious way of replenishing the treasury through the bondage of foreign loans the government continued even during the rule of Abdul Hamid [...] The practice of those years shows that the issuance of loans was accompanied more and more by the government’s yielding to various demands: giving out new concessions, awarding lucrative contracts to European manufacturers, sometimes even acquiescing to territorial claims. In other words, the loans truly became a leverage of economic and political influence the European powers exercised on the Sublime Porte”<sup>11</sup>.

Also of the “old school” was B. Dantzig, who analyzed patterns and specific features of the economic and political development of Turkey

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8 Novichev, *ibid*, p.195.

9 Novichev, *ibid*, p.201.

10 Petrosian Yu. A., *Osmanskaya İmperia: Moguschestvo i Gibel*, Moskva 1990, p.218.

11 Gasratian M., Oreshkova S., Petrosian Yu., *Ocherki İstorii Turcii*, Yerevan 1986, p.136.





Porte was carried away by the ease with which foreign bankers gave out loans; and from 1854 it went on taking out loan after loan, squandering the money on its wasteful daily expenses”<sup>13</sup>. They were, however, the first among Russian researchers of Turkey to point out positive outcomes of the OPDA’s work: “How successful the Administration’s work really was can be seen from the following. In the beginning, the six main sources of revenue entrusted to the Administration brought in 1,2 million Turkish liras (26,5 million francs). Between 1891 and 1898 the revenue was already 1,9 million Turkish liras (44,9 million francs)—a 41% increase. Besides, the Administration’s operating expenses in 1891 were only 336,000 Turkish liras (7,6 million francs), which was relatively little if compared with the expenses of the Sultan’s Treasury (675,000 Turkish liras) and Finance Ministry (1,420,000 Turkish liras)”<sup>14</sup>.

Their thinking on the Ottoman debt was further developed by historian S. Ivanov, as well as some other researchers of the “new school.” S. Ivanov was one of the distinguished researchers of the Middle East. His sphere of scientific interests also included problems of socio-economic history of the Ottoman Empire and Republican Turkey. For many years, he was working on the history of Russian-Turkish trade relations from Middle Ages until the beginning of the XXth century. A number of his articles were devoted to comparative typology of historical development of the Russian and the Ottoman Empires. The same is true for the following monographs “The International Economic Relations of the Late Ottoman Empire (end of the XVIII – beginning of the XXth century)” (Vneshneekonomicheskiye Svyazi Osmanskoi İmperii v Novoye Vremya (Konec XVIII – Nachalo XX vv., 1989)) and “Russia, the West and the Muslim East During Colonial Times, 1994” (Rossiya, Zapad i Musulmansiy Vostok v Kolonialnuyu Epohu).

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13 Yu. Klyuchnikov-A. Sabanin, **Mezhdunarodnaja politika Noveishgo Vremeni v Dogovorah, Notah i Deklaratsiyah**, P. I. - Moskva, 1925, p.200.

14 Klyuchnikov-Sabanin, **ibid**, p.177.



At large, the works by Russian turkologists written in 1980 – 2000s are distinguished by new conceptual approach towards the Ottoman debt problem. In particular, according to the current study of the globalist processes, Russian historiography after Western and Turkish one, began to represent the Ottoman debt as a result of interaction of the World economic system and Ottoman traditional society. Furthermore, opinion about objective character of the debt and bankruptcy is prevailing.

Thus, S. Ivanov suggested that the debt should be viewed as an example of interaction between a traditional feudal culture and a bourgeois economic one. Analyzing the causes that brought the Ottoman Empire to insolvency, he divided them into external and internal. Among the external causes he pointed out to the world economy's general crisis situation of the mid-1870s, and to the high degree of exploitation of the Ottoman Empire by European lenders. Ivanov opined that the Sublime Porte's wasteful use of foreign loans did not necessarily mean it acted irrationally. From the standpoint of a state still in its Late Feudalism phase such expenditure was quite justified—it strengthened the army and increased the authority of the Empire's central government. The problem was that at that time such economic policy of the Ottoman government ran counter to the world's prevailing capitalist system of financing.

Studying the genesis of the Ottoman public debt shows us that the goals a capitalist society pursued by taking on national debt could be different from the goals of a feudal society with debt. In the mid-19<sup>th</sup> century England, the service of public debt utilized almost a half of the budget expenditure. In France, it was one-third, in the United States one-fourth, in Austria one-fifth<sup>15</sup>. However, in capitalist countries, as Karl Marx wrote, “national debt becomes one of the most powerful leverages of initial capital. As if touched by a magic wand, national debt turns unproductive money into a productive force and makes it capital”<sup>16</sup>. “The

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15 Sheremet et al, *Vneshneekonomicheskiye Svyazi Osmanskoi Imperii v Novoe Vremya Konets XVIII – Nachalo XX veka*, p. 106.

16 Marx-Engels, *ibid*, vol. 23, p. 764.



modern doctrine is not inconsistent when it states the more public debt, the richer the country,” wrote Karl Marx of bourgeois states<sup>17</sup>. In the Ottoman Empire, however, the quittance of the debt led to an increase in taxation. “The Ottoman national debt was nothing else but billions of francs squeezed out of the Ottoman Empire’s population,” concluded S. Ivanov, citing N. Todorov, a Bulgarian historian<sup>18</sup>.

In the mid-XIX<sup>th</sup> century, the Ottoman Empire with its backward finance system and corrupted state machine wasn’t the only one who was unprepared to step into lending arrangements. To a degree the world of capital wasn’t ready for it either. “Western financiers,” S. Ivanov wrote, “did not know any better and brought onto the Ottoman soil their European ideas what national debt should be, as well as what possibilities for enrichment it should give them”<sup>19</sup>.

Russian historians also reflected on the establishment in 1859 of a Joint European-Turkish Committee to monitor the reorganization of Ottoman finances. I. Fadeyeva in her article “Turkey’s Fiscal Position in the 1850-1860s” pointed out that “despite the wide powers given to the Committee, in reality it was essentially an advisory body, its initiative being dependent on the good will of managers of different government offices whose cooperation the Committee sought to fulfill its mission. Its success also depended on the government’s preparedness to accept its recommendations and on the consistency of their implementation”<sup>20</sup>.

However, V. Sheremet and A. Novichev thought differently. They observed that politico-financial control by means of monitoring committees, “a committee of Ottoman bondholders,” or other organizations created by creditors and financiers, did not begin when the Ottoman

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17 Marx-Engels, *ibid*, vol. 23, p.764.

18 N. Todorov, *Balkanskiy Gorod 15 – 19 Vekov. Socialno-Ekonomicheskoe I Demograficheskoe Razvitiye*, Moskva 1976, p.193.

19 S., Ivanov, *Osmanskaya Imperia v Mirovoy Ekonomicheskoi Sisteme (Vtoraya polovina XIX – Nachalo XX veka)*, Moskva 2004, p.79.

20 Fadeeva, *ibid*, p.115.



government became insolvent—it began much earlier, during the Crimean War. In their opinion, this form of control was exercised to monitor the Empire's military expenses and to place it in the humiliating position of an unequal military ally and a debtor.

In Sheremet's view, it was the foreign lending institutions that dealt a decisive blow during the crisis of the 1870s, pushing the Ottoman Empire into the status of semi-colony. Later, in his "War and Business", he made it clear that after the OPDA's founding, the financial and political control over the country's economic development was no longer done "through this group of courtiers or that group of officials. It was done by direct pressure on the Sultan himself and on the executive branches—all in the interest of the European powers that subdivided the Empire. A final partition of the Ottoman Empire was yet to come, but in the meantime, through this act, financiers strengthened their position much more effectively than diplomats or military men might through their usually ephemeral pacts"<sup>21</sup>.

E. Urazova is another scholar of Turkey's economic development. Her interests encompass Turkey's finance, the issues of financing economic growth, and the mobilization of internal and external resources of wealth creation. The economic evolution in Turkey is analyzed in her work entitled "Turkish Economy From Etatism to Market (Domestic and Foreign Resources of Economic Growth )" (*Ekonomika Turcii ot Etatizma k Rinku* "(Vnutrenniye i Vnešniye Istočniki Ekonomičeskogo Rosta)). Another aspect of the researcher's interests is Turkish foreign indebtedness. In this work the author gives a brief economic history of Turkey and characterises attraction of foreign resources as the most important factors of economic development. At the same time, the article states that this direction contributed to growth of foreign debt, which repayment has long been onerous duty for all Turkish citizens, thus, creating problems in economic strategy and politics of the country.

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21 V. Sheremet, *Voina i Biznes*, Moskva 1996, p.674.



Though researching mainly current problems, Urazova, in one of her articles, addressed the Ottoman debt during the World War I. Writing about the growing difficulties experienced by the Empire since the Balkan Wars, Urazova noted that the main method of financing the budgetary expenditure during the World War I—that is, through internal and external loans—was clearly insufficient. She also brought up an interesting fact that “after Turkey entered the war, the Ottoman Public Debt Administration took a whole four months to call off those of its representatives who were from the Entente and announce that it would stop contractual payments to creditors from the Entente’s member countries [England, France, and Russia]; even then the payments stopped only as late as March of 1915”<sup>22</sup>.

As one can see, the subject of the Ottoman debt during the Ottoman epoch has been studied rather well. In comparison, the field of the Ottoman debt during the Turkish Republic has been relatively undeveloped. The superficial way in which the Ottoman debt’s settlement in the 20<sup>th</sup>-century Turkey has been treated is due to the difficulties in accessing primary sources. According to Turkish scholar Ibrahim Hakki Yeniay, the documents kept in the Administration’s branches were destroyed after the last payment was made. Yet, the settlement of the Ottoman debt problem in the Republican period of Turkish history was one of the compelling issues of international economic relations in 1920 – 1950s.

When writing about the economic development of modern Turkey, Russian researchers displayed a peculiar difference in evaluating socio-economic continuity from the Ottoman Empire to the Republic. Some scholars saw in the Turkish Republic the state of a principally new type, with a unique political, social, and economical character. It was a state, they noted, that not only didn’t try to preserve Ottoman imperial traditions, but sought to break away from them. This point of view is apparently close to E. Urazova who also wrote that “the first decade of the

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22 E. Urazova, “Sudba Ottomanskogo Dolga (Turetskiye Finansı v Gody Pervoi Mirovoi Voyny)” *Ot Stambula do Moskvu*, Moskva 2004, p.177.



Republican system was the time to establish a new order, when steps were taken to reform all socio-political and economic spheres and to settle international relations (including contractual ones) with those Western states that had occupied important positions in respect to the semi-colonial Ottoman Empire<sup>23</sup>. However, a clean break and escape from the influence of the Empire were hardly practical. This view has been shared by the “new school” researchers. However, they too considered the preservation of any Ottoman Empire elements of economical order in Republican Turkey as something negative.

Researcher of Turkish capitalism, the author of “The Development of Capitalism in Turkey: Theory of Hybrid Economy, 1982” (*Razvitiye Kapitalizma v Turcii: k Kritike Teorii “Smeshannoi Ekonomiki”*); “The History of Etatism in Turkey, 1991” (*Istoriya Etatizma v Turcii*) and “The History of Turkey. XXth century, 2007” (*Istoriya Turcii. XX vek*) N. Kireyev is among present prominent turkologists. He argued that the Turkish government, busy fighting a war for independence, “had no time to consider sweeping financial reforms [...] it followed the old road of just increasing existing taxes<sup>24</sup>. Considering the fact that a significant portion of taxes came from the sources controlled by the OPDA during the Empire, Mustafa Kemal instituted control over the Administration to prevent money from being transferred to Istanbul. According to Kireyev, the government of Turkey’s Grand National Assembly had to resort to the OPDA’s staff and infrastructure in order to collect taxes on behalf of the new government. The transfer of the collected taxes to the national budget was made under the condition that final computations between the Kemalists and the Administration would be made based on future agreements. Kireyev emphasized that “this situation was convenient for the OPDA too, since the debts were acknowledged to have to be paid, operating expenses of the Administration were allowed to be covered, and its numerous staff continued working within the country<sup>25</sup>.

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23 Urazova, *Ekonomika Turcii: ot Etatizma k Rynku*, Moskva 1993, p.11.

24 N. Kireyev, *Istoriya Etatizma v Turcii*, Moskva 1991, p.96.

25 Kireyev, *ibid*, p.95.



The June 23, 1928 Ottoman Debt Agreement settling the issue of debt payments was traditionally viewed by Russian turkologists as a serious concession made by the Turkish government to the West. They were uniform in the opinion that the Agreement, signed under conditions unfavorable for Turkey, was the result of pressure by Turkish bourgeoisie whose interests coincided with those of foreign capitalists and who sought to alleviate tensions with France. The historians have convincingly retraced how the goals of Turkey's bourgeoisie and those of its government overlapped as the latter hungered for new loans. Thus, B. Dantsig compared the signing of the 1928 Agreement with that of the Mosul Treaty between Turkey and the United Kingdom. He pointed out the "defeatist" character of both agreements, saying that the Mosul Treaty at least "provided Turkey with a certain degree of calm on its borders," while the debt agreement forced "Turkey, whose nascent capitalist economy needed foreign credits, to coordinate its financial matters with the world exchange market"<sup>26</sup>. Another turkologist I. Alibekov in his work "State Capitalism in Turkey" cited the November 1928 speech by Mustafa Kemal at the opening of the Parliament: "It's hard to predict how beneficial the conditions of the agreement will be and how the state will be able to withstand new burdens. But the government has been forced to take these steps by our moral obligations and our need of credit"<sup>27</sup>.

In retrospect we know well that the signing of the 1928 Ottoman Debt Agreement did not produce the anticipated influx of foreign investment to Turkey. Analyzing contemporary press accounts, Alibekov tried to clarify the West's position and understand the causes of foreign capital's refusal to give Turkey new loans. He outlined primary and secondary reasons. Among the primary reasons, he cited etatism and the system of state monopolies: "It's easy to see that under the pretext of 'necessary conditions for free enterprise' foreign capital showed its aversion to etatism, which would deprive it of its ability to make profit. The elim-

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26 B. Dantsig, *Ocherki po Ekonomicheskoi Geografii Turcii*, Moskva 1930, p.136.  
27 *Put' Industrializatsii*, 1929, №2, p.87.



ination of etatism and state monopolies, which had been inherent elements of the Turkish economic policy, was the first condition of foreign capital under which it would be willing to operate in Turkey once again”<sup>28</sup>. Among the secondary reasons, Alibekov cited the unsettled question of debt payments and the Lausanne Conference’s abolition of the regime of the capitulations<sup>29</sup>. The latter were important to the Board of Bondholders of the Ottoman Public Debt. After lengthy arguments and Turkey’s refusal to make a scheduled payment, the Board issued a statement that “the bondholders will resist any credit operation undertaken by Turkey in foreign markets until the present situation changes”<sup>30</sup>. In Alibekov’s view, this was tantamount to an economic blockade.

The 1929 world economic crisis thwarted the implementation of the agreements. With prices for raw material (Turkey’s main export) falling, the government had to institute restrictions on exchange, taking control over selling and buying currency. The upcoming in 1930 Ottoman debt’s service threatened to undermine the state’s already diminished currency assets. The 1928 Agreement would be impossible to comply with. Thus the government wished to change the agreement to more favorable financial conditions—more suitable to its capabilities.

Two annual payments of 18,778 paper liras made in 1929 with a transfer in currency caused a sharp decline in the Turkish lira’s rate. In the situation of the world economic crisis the Turkish government clearly understood that foreign capital would unlikely come to rescue, even with signed agreements, and it announced steps to maintain the level of foreign currency. Among them was the reduction of the Ottoman debt payments down to one-third, with the further complete termination of payments and prohibition of currency export<sup>31</sup>. Specialists noted that Turkish gov-

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28 *Put’ Industrializatsii*, 1929, №2, p.87.

29 Ī. V. Alibekov, *Gosudarstvenny Kapitalizm v Turcii*, Moskva 1966, p.29.

30 Alibekov, *ibid*, p.73; *Blijniy Vostok*, 1931, №2–3, p.32.

31 Dantsig, *ibid*, p.34; B. M. Potshveriya, *Turcia Mezhdv Dvumya Mirovymi Voynami. Ocherki vneshney Politiki*, Moskva 1992, p.170.



ernment had correctly reckoned on two factors. Firstly, the rivalry between European states impeded announcement of financial blockade. Secondly, the claims of the Debt Council were unlikely to lead to open military intervention in Turkey. N. Kireyev concluded that “the combination of time and the Turks’ persistence worked. Claiming continuously their willingness to pay, participating in talks and negotiations, they in fact did not pay for ten years, excluding partial payments in 1929-1930 and 1930-1931”<sup>32</sup>.

This led to worsening relations with France. An improvement depended on re-payment of the debt. On April 22, 1933 a new agreement was signed in which the Turkish portion of the Ottoman debt was called “7,5% of Turkish debt of 1933.” In it, the monetary unit of payments was changed to the French franc at the then existing rate of one golden lira equaling 112 French francs. The general amount of debt was calculated to be 8,6 million gold liras, or around 80 million paper ones. In comparison with the amount of debt in the previous agreement, this amount was reduced ten times<sup>33</sup>. Per the 1936 and 1938 agreements, Turkey negotiated halved payments and, later, a complete termination of annual payments in exchange for the price of Turkish goods.

Using quantitative analysis B. Dantsig argued that since the obligations had been fixed in French francs, the depreciation of the franc made in France in 1937-1938 automatically reduced the debt in liras. In 1936, the franc depreciated in comparison with 1929-1935 by 8%; in 1937 by 39%; in 1938 by 56,6%; and in 1939 by 62,2%. Consequently, the Ottoman debt went down as follows. On May 31, 1933 it was 79,820,000 liras; in 1934, it became 79,618,000 liras; in 1936, 78,997,000 liras; in 1937, 53,582, 000 liras; in 1938, 32,568,000 liras; and in 1939, it came down to 31,069, 000 liras<sup>34</sup>. According to the data collected by Dantsig, the payments towards the Ottoman debt and buying out foreign concessions

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32 *Turcia v XX Veke*, Moskva 2004, p.35.

33 Dantsig, 1930, p.34.

34 Dantsig, *ibid*, p.35.



laid heavy burden upon the Turkish taxpayer. However, these payments and the return of most foreign concessions to the state weakened the position of foreign capital<sup>35</sup>. A separate issue concerning the Ottoman debt is the date when it was paid off. Russian turkologists generally agree on either 1944 (B. Dantsig and A. Alibekov) or 1954 (E. I. Urazova). In 1944, Turkey announced its intention to re-pay the debt ahead of schedule and began negotiations to buyback bonds from the holders in England, France, Switzerland, Belgium, and Holland. On July 31, 1948 Turkey paid for almost 90% of all Ottoman bonds and the parties signed an agreement releasing the Turkish government from the Ottoman debt. The last agreement was signed with France, whose creditors' bonds had to be increased in value because of the depreciated franc. The final payment was made on May 25, 1954. Thus, since the first external loan of the Ottoman Empire until its last payment, one hundred years passed.

Although it was not the only helpful factor, Turkey was fortunate in settling the debt: the franc had depreciated and a possibility arose to re-pay through the sale of Turkish goods abroad. The Ottoman debt's settlement became possible due to a combination of external and internal factors. A series of consistent steps and persistent actions undertaken by the Turkish government, which skillfully used changes in international and financial state of affairs, helped Turkey receive many concessions for the debt's re-payment. Finally, the much-changed international politics before the World War II (1939-1945) softened the creditors' attitude; for them it became more important to seek Turkey's cooperation in solving pressing international problems.

It must be said in conclusion that scientific interest in the economic history of the Ottoman Empire, including the question of the Ottoman public debt, has been especially high in the times when there has been need to understand socio-economic processes, to discover patterns, to comprehend tendencies, and, based on the understanding, to foresee the future. Noteworthy is the fact that classical works on the subject appeared

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35 Dantsig, *ibid.*



in 1930s when economic relations between Soviet Union and Turkey became especially intensive. They were mostly statesmen and diplomats whose academic interests corresponded with the general international course of the Soviet state. Children of their time, first Soviet turkologists had to keep in line their research with Marxist historical approach. Scholars of the “old school” were not researching economic history, but the economy of the Ottomans, often associating financial difficulties of the Ottoman state with general economic development. Yet, anti-imperialistic spirit of their studies does not extenuate factual material and statistic data which are still being referred to by Russian turkologists. It is deplorable that western orientalists were not accustomed with economic findings of the first Soviet turkologists. Only a small part of Novichev’s monograph translated into English was included by Ch. Issawi into his research on economic history of Middle East in the XIX – beginning of the XXth century. No less distressing is the absence of Russian studies devoted to the Ottoman economic history in subsequent decades.

There have been many years since new literature, resources and new concepts became available to Russian scholars. It was in the late 1980s when Russian turkologists addressed the topic again. So-called “new school” experienced influence of politeconomic approach of foreign studies. In this regard, the dependence of the Ottoman economy on western capital was seen as an objective consequence of its interaction with the world economic system. Thus, in the above mentioned Russian works by Ivanov there have appeared assessments close to those by I. Wallerstein, Ş. Pamuk and Ç. Keyder. Just like them, the “new school” orientalists noted that the Ottoman ruling elite managed to exploit the Great Powers’ interests in the Eastern question which helped them to optimize strategy of maneuvering in the midst of general rivalry. The result of these actions was beneficial both for Istanbul and for the West, as the former made use of the new loans, and the latter preferred to collaborate with the sultan than to support opposition. It is also argued that political rivalry of the European states coupled with relative military power of the Ottoman Em-



pire helped it to keep its statehood, unlike bankrupt countries of the respective period, Egypt, Tunisia, Morocco.

The significant number of Russian studies, most of which have been referred to in this article, shows that a great interest exists in the economic history of Turkish Republic. However, general studies of the Ottoman Empire and the Turkish Republic cannot shed enough light on such complex issue as the Ottoman debt settlement. Unfortunately, Russian historiography lacks specialized studies on it, although the above mentioned works have not lost their scientific value. The subject is still awaiting its dedicated scholar. The main object of new studies on the Ottoman debt is not only to show its negative character in history, but also, to reveal its crucial role in the formation of future Turkish relations with the world financial markets. The Ottoman debt legacy provided Turkish economic culture with cautious attitude to the use of foreign loans' potential. Though, in some periods history repeated itself, especially when massive foreign credits flowing into Turkish economy let to their unproductive use, increasing external debt of the country. The "Ottoman debt syndrome" made Turkish government re-estimate their relations with international financial market and pay attention to economic development. The recent decade has demonstrated that this policy was a success: the total amount of external debt decreased, while Turkey became to act as international creditor.

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