

"Protectionists and Free Traders in the Late Ottoman Empire"

Istanbul Network for Liberty
Third Annual Conference
March 2014

**DO NOT CITE OR QUOTE WITHOUT
PERMISSION OF THE AUTHOR**

In February 1911 the Ottoman Minister of Finance, Mehmet Cavit Bey and Kozmidi Efendi, a Member of Parliament for Istanbul, had a lengthy debate on economic policy in the Imperial Ottoman parliament. M.Cavit argued that the Empire needed to stick to its liberal, free trade policy and encourage foreign investment. Only this policy would foster the sort of foreign investment and immigration of skilled labor needed to build and strengthen the economic infrastructure. Kozmidi countered that the laissez faire policies of the Young Turks had impoverished the Empire and made the growth of Ottoman industry impossible.

Both debaters might have had some idea that the general tide of informed opinion had already begun to shift away from Cavit's position. By 1914, the Ottoman State had mostly abandoned its earlier commitments to liberal economics and had embarked on its program of "National Economy" (milli iktisat).

While the details of this story are fairly well known to students of Ottoman history, much less clear is why this shift occurred and whether it produced the sorts of results desired by

the Ottoman statist reformers. Much of the secondary literature seems to take the changing strategy almost for granted, and similarly assumes that this was the "right" strategy. Other investigations have argued (or implied) that the arguments for the National Economy won on their own merits.

This paper suggests that Mehmet Cavit Bey and the other liberals were hamstrung in their arguments for free market capitalism by the semi-colonial relationship in which the Great Powers insisted on keeping the Ottoman Empire. Crucially important in this regard as the maintenance of the "capitulations." Free trade, whatever its relative merits, was thus damned in the popular mind by its association with what were coming to be regarded as the forces of European imperialism. The gradual abandonment by the Ottoman state of a liberal economic policy occurred because these ideas were being challenged from three sides: Turkish nationalists, socialist ideologues (most of them Ottoman Christians), and the antagonistic attitude of the Great Powers. Importantly, the abandonment of the liberal economic policies was paralleled by an increasing authoritarianism in political life.

Ottoman Economic Philosophy of the Nineteenth Century

As authors such as Sevket Pamuk and the late Donald Quataert have pointed out, the study of economics in the Ottoman

Empire long exhibited a uneasy and ambivalent relationship between the traditional, quasi-mercantilist practices of the Ottoman state, and the liberal economic ideas coming out of Western Europe, especially Great Britain and France. An important exception was Sakizli Ohannes Efendi, an instructor of economics at the elite Mekteb-i Mulkiye Sahane. He was the author of a tremendously influential economics textbook, *Mebad-i Ilm-i Servet-i Milel* (1297 AH/1879 CE) which drew heavily on Smith, J.B. Say, and Frederic Bastiat.¹ As can be expected, a centerpiece of Ohannes Efendi's work was the importance of low tariffs and free trade.

Ohannes Efendi's ideas seem to have been generally accepted, if not too deeply reflected upon, until the early twentieth century. Two important exceptions were the famous progressive reformer Ahmet Mithat Pasha (1822-1883) and Akyigitzade Musa (1865-1923), a proto-nationalist immigrant from Kazan in the Russian Empire. Both were vociferous and pointed opponents of free trade and both argued that the Empire needed to adopt a protectionist trade policy to strengthen Ottoman economic development. Akyigitzade, at least, was explicitly influenced by the German economist Friedrich List.

¹Cavdar, 54; Toprak, 104.

The Capitulations and the Public Debt Administration

For better or for worse, however, the few protectionist voices that existed at the time would have had little effect even had they found a receptive ear in the Ottoman government elites (which, by the way, were in fact becoming increasingly numerous). This is because Ottoman economic policy, at least as far as trade was concerned, was severely circumscribed by a web of legal obligations known as the Capitulations (*imtiyazati ecnebi*). These originated in decrees issued by Sultan Suleyman and King Francis I of France. The terms allowed the King's subjects, including merchants, to be tried by French law while in the Ottoman territories, and also released French merchants from certain tax obligations and customs duties while trading in the Empire. By the seventeenth century, most other Western and Central European subjects enjoyed similar privileges while in the Ottoman Empire.

It is important to note that originally the capitulations were regarded by both the Ottomans and foreigners not as treaties but as unilateral decrees issued by the Ottoman sultans. They were thus manifestations of Ottoman power, as well as a way the Ottomans assured themselves of the import of various goods they wanted. The capitulatory regime also reflected the traditional Ottoman legal system, in which non-Muslim communities were largely governed by their own laws.

By the late eighteenth century, however, the Capitulations had evolved into something quite different from generous decrees from a beneign sultan. For one thing, European governments had succeeded in gradually forcing an increasingly weak Ottoman state to award more and more privileges to their subjects. By the dawn of the nineteenth century, therefore, European merchants, and other foreigners resident in the Empire for that matter, were free Ottoman taxes and import duties except for a small ad valorem rate. They thus enjoyed an economic position better than Ottoman subjects. Even more galling to many Ottomans, however, were the robust extraterritoriality rights now exercised by foreigners. To make matters worse, increasing numbers of Ottoman subjects, mostly non-Muslims, were able to take advantage of these privileges by securing a kind of certificate (called a berat) from a foreign consular office, by which a foreign government took an Ottoman subject under its legal and fiscal protection.²

Most modernizing reformers in the Empire came to loathe the Capitulations, less because of the low tariff rates that they enshrined than because they viewed them, quite correctly, as affronts to Ottoman sovereignty.

The second major economic challenge faced by the Ottomans resulted from the de facto bankruptcy of the Ottoman regime in

²Feroz Ahmad, *Capitulations*, 3

1875. After the dust from the subsequent Constitutional Revolution of 1876, the Russian War of 1877-78, and Sultan Abdulhamit II's coup d'etat had settled, the Ottoman government and its European creditors sat down to work out a solution to the Ottoman financial crisis. The result was the creation, in 1881, of an organization called the Public Debt Administration. This was essentially a bureaucracy set up within, but technically separate from, the broader Ottoman imperial bureaucracy. It was run by a board of seven men representing the main European creditor nations and eventually employed some 5,000 people. It had the right to collect certain taxes and revenues, eventually about a quarter of all tax receipts in the Empire, and use them to repay the imperial debt.

The PDA was actually highly efficient and regarded as generally honest, even by its critics. Its operations made foreign investment in the Empire seem less risky and soon investors and financiers became interested in the Empire again. After 1881 major infrastructure projects in transportation, communication, and public works were carried out, largely as a result of foreign investment.

The trade-off was, of course, a drastically circumscribed role for the Ottoman state. With so much of its revenue earmarked for repaying the debt, the Ottoman state had little remaining for its own projects. The Capitulations, meanwhile,

prevented the Ottoman customs bureaucracy from raising revenue through an increase in customs rates, which had by the mid-nineteenth century stabilized at 4 percent ad valorem.³

The Young Turk Revolution

By 1908 the growing currents of Westernizing reform and feelings of humiliation nurtured in part by the existence of the PDA and the Capitulations had helped foster the development of a number of revolutionary groups, all dedicated to the overthrow of the autocratic regime of Sultan Abdulhamit II and the restoration of the suspended 1876 Constitution. European journalists referred to this disparate and only loosely allied movement as "jeune Turcs," a term eventually adopted by the Ottomans themselves. Officially, the dominant faction among the Young Turks called themselves by the (obviously Positivist inspired name) Committee for Union and Progress.

In the summer of 1908, the Young Turks, led by the CUP, staged a coup d'etat (which they immediately characterized as a revolution) in which they forced the Sultan to reinstate the constitution and parliament. In the Spring of 1909, following a botched counter revolution, the CUP deposed Sultan Abdulhamit II and placed his brother Mehmed Resat, on the throne as a figure-head monarch.

³ Ahmad, 9

Early Young Turk Political Thought

During its first several years after the revolution, the CUP seems to have made a genuine effort to fulfill the promise of the liberal, constitutional monarchy they had reestablished. In tandem with their modernizing political philosophy, the CUP was also committed to a liberal economic regime for the Empire. A key individual in these policies was a long-standing member of the CUP, Mehmet Cavit Bey (1875-1926). Born in Salonika to a respectable family, Cavit received a good education, among other places at the Mekteb-i Mulkie in Istanbul where he attended Ohannes Efendi's classes. He subsequently worked as a teacher in both Istanbul and Salonika, while also publishing his own economics book, *Ilm-i Iktisat* in 1315, and editing *Ulum-u Iktisadiye ve Ictimaiye Mecmuasi*.⁴ After the reestablishment of the parliament he was served as deputy from Salonika and later Canakkale (1908-1912, 1914-1918) and as Minister of Finance, with short intervals, from 1909 to 1914. He resigned his post in November 5, 1914, in protest of the Ottoman Empire's entry into WWI, but continued to sit in the parliament as deputy from

⁴Cavdar, 85. Toprak, 108. Sarp Balci, "Two Versions of Enlightenment State in the Late Ottoman Era: Protectionist State versus Liberal State in the Works of Akyigitzade Musa and Mehmed Cavid," Unpublished MA thesis, METU, 2004.

Canakkale from 1914-1918. He subsequently resumed his role as Minister of Finance, at the request of Talaat Pasha, a post he held until October 14, 1918.⁵

During his time as Minister of Finance he supervised a new, simplified tax code which raised government revenue by 25 percent and oversaw the passage of a law in 1911 that strengthened property rights in Land [CITATION NEEDED].

M. Cavit hoped that these policies would encourage increased foreign investment, which he actively sought from any and all sources. Indeed, a crucial part of his overall strategy was to encourage foreign capital to invest in the Empire. He said, for example, that "As for today and tomorrow we are an agricultural country...for the Ottomans to be able to industrialize we have neither the science nor the knowledge." Ottoman industrialization could only be accomplished by removing the difficulties facing foreign investment."⁶ Similarly, "There are certain small-scale enterprises that can be carried by the accumulated capital in the country which, of course, we would not like to have pass into the hands of foreigners..Yet, in my opinion, we must accept foreigners even in such enterprises for

⁵Balci

⁶"Biz bugün de yarın da bir ziraat memleketiyiz...Osmanlı sanayileşebilmek için ne sermayeye, ne de ilim ve irfana sahipti. Osmanlı sanayileşmeye giriştiği takdirde gerek sermayeyi gerekse beceriyi dışardan getirtmek zorunda kalacaktı." Toprak, 109.

the sake of establishing a skill, that of management and rationalization, which we lack so badly. As to important public works, these can be done only with foreign capital...All countries in a state of opening themselves to civilization will inevitably stumble and fall in their new path if they seek to advance by their own forces... All new countries have been able to advance only with the help of foreign capital."⁷

Mehmet Cavit Bey also remained a committed free trader. As he wrote in an article in *Ulum-u Ictimaiye ve Iktisadiye Mecmuasi*, "protectionist policies are the biggest enemy of the worker." He went on to explain that while such policies might establish a few factories and enrich two or three holders of capital, they would impoverish thousands of fellow citizens.⁸

Mehmet Cavit Bey's hopes were met with a number of obstacles, however. First, foreign investment in the Empire actually decreased after 1908. European investors (and governments) while usually paying lip-service to the liberalizing achievements of the Young Turks, were actually deeply troubled by what they interpreted, correctly, as a revolutionary, proto-nationalist regime determined to strengthen

⁷M. Cavit Bey, "Nesriyat ve Vekay-i Iktisadiye," *Ulum-u Ictimaiye ve Iktisadiye Mecmuasi*, II, 5, (Mayis 1909), 129-130, cf. Berkes, 424. Quoted in Balci.

⁸ "usul-u himaye amelenin en buyuk dusmanidir." *Ulum-u Ictimaiye ve Iktisadiye Mecmuasi*, I, 2, (1324). Quoted in Toprak, 108.

the Empire. Despite M.Cavits's finance ministry, it seems that foreigners were worried about the parliamentary regime.

Ironically, though they had never tired of criticizing Abdulhamit's autocracy, they had invested eagerly in his lands.

Secondly, and perhaps ironically, in parliament Cavit Bey was increasingly criticized by socialist deputies for allowing *too much* foreign investment in the Empire (which they viewed as imperialism). [QUOTES FROM ZOHRAP AND VLAHOF HERE]

Finally was the complex and emotional issue of the Capitulations. The Young Turks, M.Cavit Bey included, had long regarded these as a humiliating example of European domination of the Empire. The fact that one of the key elements of the Capitulatory regime was a low, ad valorem customs duty, arguments for free trade could be tarred by their enemies with the brush of national pride.

The Anti-Liberal Backlash

In 1908 the Young Turks had expected their revolution to be greeted with an outpouring of good will by the Western European powers. They supposed, naively perhaps, that the Great Powers would welcome the prospect of a liberal Ottoman polity. In particular, they hoped that the Great Powers would abrogate the unequal and humiliating Capitulations and at the same time invest in the Empire.

Much to the surprise of the CUP men, however, these attitudes and policies did not develop. Quite to the contrary. After a very brief "honeymoon," the Young Turks confronted the Austro-Hungarian annexation of the provinces of Bosnia and Herzegovina and the Bulgarian declaration of independence. Both events were in clear violation of the Treaty of Berlin (1878) to which all the major states of Europe were signatories. The Ottoman public, the Ottoman Government, the CUP, were all perplexed and angered by the inaction of the European governments. To add insult to injury, the European Great Powers all quickly recognized Bulgaria as an independent state and released the new country from all of its Ottoman capitulatory responsibilities.

Worse was to follow. In 1911 Italy launched an unprovoked attack on the Ottoman Empire with the aim of conquering what was left of Ottoman North Africa (an area the Italians called Libya). In 1912, the independent Balkan states of Bulgaria, Greece, Montenegro, and Serbia attacked the Ottoman territories left in southeastern Europe. Overwhelmed, the Ottoman borders retreated almost to the Straits, retaining only a small part of Thrace east of (and just including) Edirne.

These events made a profound impression on the Young Turks. In particular, they fostered the growth of Turkish nationalism within their ranks. Since at least the 1880s, some Turkish-

speaking Muslim intellectuals had postulated the existence of a distinct Turkish nation as the core of the Ottoman Empire. While the CUP never formally abandoned the concept of Ottomanism, it is pretty clear that by 1913 many of them were increasingly interested in reimagining the the Ottoman Empire as some sort of Turkish national state.

The CUP had drawn some other very important conclusions from the events between 1908 and 1913. In particular, it had determined that parliamentary democracy is a messy, unpredictable business. In common with other trends in European political thought during this period, they increasingly came to believe that parliamentary democracy was "inefficient" and "irrational." All of these trends came together in 1913. In the midst of war against the Balkan coalition, a gang of CUP members stormed into a meeting of the Ottoman cabinet and seized power. After the "Raid on the Sublime Porte" the Ottoman Empire became essentially a one-party state ruled by the Committee.

The CUP and National Economy

These political changes were paralleled by changes in the way members of the CUP, now in complete command of the Ottoman State, viewed economic policy. Certain members of the Committee became increasingly interested in the ideas of economists such as Friedrich List who advocated "national economics." Such

plans aimed at fostering industrial development and indigenous investments through intensive government intervention through tariffs, subsidies, and state sponsored associations and cartels.

These ideas were further supported from an unlikely source. After 1912 a Russian Marxist theorist named Alexander Helphand who had arrived in Istanbul in early November 1910. While in Istanbul Helphand (who became better known by his *nom de plum* Parvus Efendi) remained in close contact with his comrades in Central Europe (among them Trotsky and Rosa Luxemburg) and also got to know some of the Balkan socialists, notably the Romanian Christo Rakovsky and the Macedonian Dimitar Vlahov. He also spent a great deal of time involved in various business ventures by which he managed to amass a fortune by 1912. Around the same time, he became the economics editor of the newspaper *Turk Yurdu* and he also wrote for *Tanin* (a pro-C.U.P. newspaper), *Tasvir-i Efkar*, and *Jeune Turc*.

Parvus Efendi's main contribution to the conversation about the Empire's economic situation was to argue that, in the case of the Ottoman Empire, a social revolution needed to be postponed until the Empire could achieve a secure and independent economy. The Empire, he argued, was on the verge of becoming a colony of the European Imperialists because of their growing domination of the Empire's economic life. The fight

against this imperialist economic penetration of Ottoman society had to take precedence for the time being over class struggle.

Parvus' ideas thus dovetailed with the program of National Economy (milli iktisat) a series of corporatist programs which aimed to create a modern industrial economy controlled by Turks. The prime architect of the national economy program was Moise Cohen, better known as Munis Tekinalp. Tekinalp was an extremely prolific and influential writer on political and economic subjects. He based his formulation of a national economy on the concepts of the German nationalist economist Friedrich List. The national economy program aimed to achieve an atmosphere of cooperation between government, industry and labor.

Tekinalp's ideas for a national economy were seized upon by his contemporary and fellow nationalist ideologue, Ziya Gokalp. Tekinalp, Gokalp and their followers believed that as long as the Turks were underrepresented in the trades and commerce, they could never become a modern nation. In the years just before World War I, they and their disciples (enamored of the state-directed successes of the German economy) persuaded the government to adopt certain corporatist economic policies.

Generally, the national economy program stressed protective tariffs and cooperation between government, industry and labor to create a strong, independent economy. In the Ottoman case,

however, List's theories had other implications. For, as the program developed, it became quite clear that the government was interested in assisting the economic development of the Turkish nationality, rather than the "Ottoman Nation." In other words, "[c]reation of a 'national merchant class' or a 'national bourgeois class' ... ultimately came to mean creation of a national industrial bourgeoisie. Objectively, this meant the collaboration of the nationalistic bureaucracy [most of which were sympathetic to, if not members of, the C.U.P.] with a national commercial bourgeoisie to expropriate and replace Levantine and minority mercantile group, and then to help a very subordinate industrial bourgeoisie into dominance through state protection, franchises and credits."⁹

The National Economy program as it developed in 1913 thus aimed to use direct government intervention to strengthen the Ottoman economy. In June 1914 parliament passed a law for the Encouragement of Industry which provided for various subsidies and preferential purchasing policies for native industries supplying the Ottoman state.

The real opportunity to put some of these ideas into practice came with the Ottoman entry into World War I on the side of the Central Powers in October 1914. Much to the fury of

⁹Taha Parla, *Social and Political Thought of Zia Gokalp*, p.110

the European governments, including their new German allies, the Ottoman government announced the unilateral abrogation of the Capitulations on 9 September 1914 paving the way for the abolition of the ad valorem tariffs on 3 March 1914. They also established various economic clubs, associations, and government sponsored joint stock companies. Perhaps the most important of these was the "Tradesmen's Committee" (Esnaf Cemiyeti) in 1915 and led by the powerful CUP man Kara Kemal Bey.

The aim of all these groups was to bring a measure of government control over the organization of the economy. After the outbreak of the war, the CUP dominated Ottoman state established an organization called the Committee of National Defense (Mudafaa-i Milliye Cemiyeti). Together with the Tradesmen's Committee it essentially ran the Ottoman Economy during the war years. They sought out Muslim traders and landowners in the provincial towns, especially those with ties to the CUP, and set them up as local representatives of the state sponsored stock companies and associations. These cadres thus formed the embryo of a "national" (i.e., Turkish-speaking Muslim) bourgeoisie tied to the Party and the State.

These policies actually did lead to the accumulation of capital among these Muslim Turkish cadres, just as the CUP's National Economic program intended. But many other people of the Empire paid a great price. First and foremost were the

Greek and Armenian merchants and commercial elements who were almost entirely cut out of these state enterprises and associations. The bigger companies were also obliged to take Turkish-speaking Muslims onto their Boards of Directors. During the course of the War, over 100,000 Greeks from Western Anatolia left the Empire, and their businesses were turned over to those with CUP connections.

The other people to suffer were, of course, the millions of ordinary men and women in the countryside and cities who had no government or party connections. The common peasant farmers and sharecroppers in the countryside did not reap any material benefits from the CUP's program, and the urban population was subject to incredible price rises (up to 400 percent of 1914 prices) by the end of the War.¹⁰ Mehmet Cavit Bey's awful prophecy had come true.

Conclusion

Thus, the authoritarian and nationalist policies of the Committee after 1913 paralleled similar developments in economic policy. It is worth noting that these policies probably weakened the overall Ottoman state and war effort. New, state sponsored, Muslim commercial elites lacked the capital, foreign

¹⁰ Vedat Eldem, *Harp ve Mutareke Yillarinda Osmanli Imparatorlugu'nun Ekonomisi*, Ankara: Turk Tarih Kurumu Basimevi, 1994, 48-53.

investment contacts, or management skills to make a go of their new enterprises. While some people, the "Rich of 1916," profited from government connections, the Milli Iktisat policies impoverished further the Anatolian peasantry.

The CUP sacrificed liberal economic policy on the alter of nationalism. The result in 1918 was bankruptcy and the disintegration of the Empire.

Peter C. Mentzel, Ph.D
Senior Fellow
Liberty Fund, Inc.