Why West Asia declined

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WHY WEST-ASIA DECLINED AND SUGGESTIONS FOR RECOVERY.

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Introduction:

In her seminal work, Janet L. Abu-Lughod describes the Indian Ocean in the period 1250-1350 as a huge world-economy dominated by three civilizations, the Chinese, the Indian and Islam with Europe as an insignificant extension of the Eurasian continent in the background. In her own words:

> "Before Europe became *one* of the world-economies in the twelfth and the thirteenth centuries, when it joined the long distance trade system that stretched through the Mediterranean into the Red Sea and Persian Gulf and into the Indian Ocean…to reach China, there were numerous pre-existent world-economies. Without them, when Europe gradually "reached out", it would have grasped empty spaces rather than riches. My plan is to examine this world system as a whole, treating Europe at that time as it should be seen, as an upstart peripheral to an ongoing operation".[1]

Without any doubt, Islam was one of the most important, if not the most important, component of this Indian Ocean-world economy, which dominated the bulk of West-Asia. The contrast that emerges between the classical Islam extending from the seventh century to the beginning of Abu-Lughod's period and the contemporary one is astounding. In this article I will first attempt to explain long term causes of decline of West-Asia with specific reference to the Ottoman empire and then deduce some suggestions for the possible recovery of

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[1] The emphasis is hers. Janet Abu-Lughod, *Before European Hegemony,* p. 12

the region in the twenty first century.[2] The emphasis on the Ottoman empire is due to the enormous territories this empire controlled in West-Asia until the twentieth century, the fact that it is contemporaneous with a rising Europe thus allowing comparison, as well as the survival of the rich Turkish archives. These archives contain some 400 million documents and are unique in the Islamic world.

During the period 1453 to 1606, from the conquest of Constantinople to the treaty of Sitva-Torek (Zitvatorok), the Ottoman Empire emerged as a world power. As a world power it was capable of directly challenging Spain in the Western Mediterranean and supporting its enemies, the newly emerging Protestant nations of England, the Netherlands and Catholic France as well as projecting its power in the Indian Ocean all the way to Sumatra, to aid the Muslims of the region against the Portuguese.

This fierce rivalry between the Ottomans and the Habsburgs, the Spanish as well as the Austrian branches, owed its origins to the conquest of Constantinople. The conquest of this magnificent city, which had been the capital of the Roman Empire from May 11th, 330 until May 29th, 1453, a period of 1123 years, was considered by the Ottomans not as the demise but as the rebirth of the Roman Empire. Mehmet II, the conqueror, considered himself the new Roman Emperor and officially used the title *Kayser-i Rum*, "Caesar of the Romans". This was accepted by the people of Constantinople, who called their new Emperor, "Sultan Basileus", thus combining his two attributes, Muslim and imperial, in a single title.[3]

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[2] The word "empire", a western concept with colonial implications, ill fits the Ottoman case.Ottomans never called their state an empire but used various expressions such as "the magnificient state" or the "perpetual state".

[3] In 1466, G. Trapezuntios, the philosopher, legitimized this acceptance as follows: "No one should doubt that you (Mehmed II) are the Emperor of the Romans. The person, who legally holds the capital city of the Empire, is the Emperor and the capital city of the Roman Empire

Not only the Greeks, Italians and Austrians but also the Arabs and the Persians considered the new empire as the continuation of the old Roman one. For these people Turks were the Romans of the modern times.[4] Even in Sumatra, Malacca and the Indonesian archipelago the conqueror was known as the "Raja Rum", the Roman Raja.[5]

With so much emphasis given to continuity, it was inevitable that the Byzantine political doctrine of a world-wide empire ruled by a single Emperor would also be borrowed by the Ottomans.[6]

This was the legal starting point for Mehmed II's conquests. His goal was to revive the Roman Empire under his own rule and to restore all the territories that once belonged to the Empire of Justinian. Thus, the ultimate orientation of this West-Asian empire was the reconquest of the Mediterranean, Southern Europe and North Africa and linking these with the Indian Ocean via the vast Arab lands. Since, as the conqueror of its capital, Mehmed II saw himself as the legal inheritor of the Roman Empire, the existence of another Roman Empire in the West was totally unacceptable to him. This refusal became even more pronounced as the Western Empire gained strength and began to emerge as

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is Constantinople". H. İnalcık and Günsel Renda (eds.), *Ottoman Civilization* , vol. I, (Ankara: Ministry of Culture,2002), p. 83.

4 H. İnalcık, "Rûmi", *Encyclopaedia of Islam,* Second Edition. Also see; Hans Sturmberger, "Das problem der Vorbildhaftigkeit des türkischen Staatswesens im 16. und 17. Jahrhundert und sein Einfluss auf den europaeischen Absolutismus" in *Rapports IV, Methodologie et Histoire Contemporaine*, Proceedings of the XIIth International Congress of Historical Sciences, August 29th-September 5th 1965 (Wien: Ferdinand Berger Sohne, 1965), p. 204.

5 Salih Özbaran, *Bir Osmanlı Kimliği,* (İstanbul: Kitap Yayınevi, 2004), p. 25.

6 This doctrine was formulated by Eusebius and declared in A. D. 335 in celebration of the thirteenth year of Constantine's reign: "The empire of Constantine is the earthly reflection of the Kingdom of Heaven. As there is but one God, so there is but one emperor." D. M. Nicol, "Byzantine Political Thought", in J. H. Burns (ed.), *The Cambridge History of Medieval Political Thought* (Cambridge: Cambridge Uni versity Press, 1988), p. 52.

another global power in the sixteenth century. This time the ambitions of the Western Empire collided with those of Sulaiman the Magnificent.[7]

In short, during the sixteenth century, two neo-Roman empires, one Muslim, controlling Constantinople in the East and the other, Catholic, controlling Rome and at times being controlled by it in the West, were on a collision course. Much of the sixteenth century is the history of the epic struggle of these titans and it is out of this struggle that there emerged the future leaders of Europe; England, France and the Netherlands. These nation states could protect themselves from the equally ambitious Western Emperor's designs only by obtaining the support of his Eastern rival.[8] In short, this West-Asian empire was shaping events in Europe, where nations survived thanks to its support .

Ottoman absolutism which focused overwhelming power at the hands of a single ruler was much admired and emulated by European states. Habsburgs and the French kings who were particularly well informed, were the first to do so. Consequently, as Ottoman armies continued their advance into the heart of the

[7] In 1537, the Venetian Resident at the Porte was writing the following to the Doge: "Sultan Sulaiman always calls Rome, Rome. He talks about the Emperor and his title of Emperor with hatred. He desires himself to be called the Emperor." Halil İnalcık, *Ottoman Civilization,* vol. I, p. 113.

[8] Indeed, as the King of France, Francis I, himself, explained to the Venetian ambassador: "the European nations, which attracted the wrath of Charles V cannot survive without the support of the Ottomans". Halil İnalcık, "Akdeniz ve Türkler", *Doğu-Batı,* IX, no. 34, 2005-2006, p. 157. Ottoman support was equally important for the Dutch, who were fighting for their independence from Spain. In 1565, the Prince of Orange wrote to his brother; "The Turks are very threatening, which means that we will not be visited by the (Spanish) King this summer". Geoffrey Parker, *Spain and the Netherlands*, (New Jersey: Enslow, 1979), pp. 28-33. A century later this support was still crucial. The failure of Charles I to obtain the vitally important Ottoman aid, is considered to be one of the reasons for his demise. Daniel Goffman, *Britons in the Ottoman Empire* (Seattle: University of Washington Press, 1998), p. 98.

Austrian Habsburg realms, they encountered an increasingly absolutist Europe and began to find their match. Moreover, while their supply lines were extending farther and farther from their bases, the increasingly more absolutist Habsburgs were growing ever more threatened and determined to resist.

These facts are reflected in Ottoman budgets. Indeed, while for much of the sixteenth century Ottoman budgets reflect surpluses, deficits begin to emerge in the early seventeenth century, precisely when the advance slowed down.[9] By the late seventeenth century when the first territorial losses occurred, massive deficits emerged. The rest of the Ottoman economic history is one of ever rising deficits and constant efforts to reform the public finances to control these.

With post 1699 territorial losses, the demographic structure of the empire was affected as well – all the more so, because the territories lost had the highest population densities. Erik Zürcher has calculated that had these Central European/Western Balkan lands not been lost, the population of the empire would have been around 42 million in 1901. This would have more or less matched the populations of Great Britain, France and Austro-Hungarian empires with respectively 42; 38 and 45 millions. Instead, the population of the Ottoman empire at the beginning of the twentieth century was merely 26 millions. The empire was thus caught in a vicious circle: loss of land meant loss of income and population, which in turn decreased its ability to defend itself and led to more loss of land. The magnitude of this vicious circle would become more clear if we compare the Ottoman population with that of Russia, its main rival. In the year 1897 the population of Russia had reached 126 million, five times that of

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[9] Erol Özvar. "Osmanlı Devleti'nin Bütçe Harcamaları, 1509-1788", in Mehmet Genç, Erol Özvar (eds.), *Osmanlı Maliyesi, Kurumlar ve Bütçeler,* c. 1, (İstanbul: Osmanlı Bankası Arşiv ve Araştırma Merkezi, 2006), p. 201-208, table 47.

the Ottomans.[10] It is this massive population explosion which enabled Russia to expand not only Southward at the expense of the Ottomans but also Eastward deep into Asia at the expense of the Turkic and Mongol populations of Central Asia.

The income component of the vicious circle is also quite striking. Latest studies of the sixteenth century Ottoman budgets reveal that in the year 1527, the Ottoman budget data were nearly the same as France and comparable to Spain.[11] In sharp contrast to these sixteenth century data, Zürcher has shown that at the beginning of the twentieth century, Ottoman state revenue was merely one-sixth of that of France and one-seventh of that of Russia.

What had caused this disastrous decline? Obviously, the picture submitted above of an increasingly centralized European polity, territorial loss and declining population, though important, cannot give us a complete picture. Indeed, had the empire enjoyed a vigorous economic growth, territorial loss and demographic decline might have been averted, or at least, rather than a slow retreat, a stalemate might have been achieved. So, we now turn our attention to economics, finance and law and do this within an Islamic framework, the predominant religion of West-Asia.

There is strong evidence that Islam had developed its own capitalism and that its basic principles can be found in the Qur'an. Prophet Mohammad was the first person to have interpreted these principles for everyday practice. From these principles and interpretations, the classical jurists developed the Islamic law. Bulk of the Islamic jurisprudence, was written down by men most of whom

[10] Zürcher, *Young Turk,* pp. 63-64.
[11] Özvar, "Bütçe Harcamaları", p. 211.

were merchants. More importantly, even Prophet Muhammad, himself, was a merchant, who firmly believed in free markets and refused to interfere in prices. Moreover, of the four righteous Caliphs, Abu Bakr was a cloth merchant and Uthman was an importer of cereals.[12]

Great Islamic philosophers also had firm opinions about markets. This is not surprising, because most of them had been appointed as *muhtesib*s, officials in charge of markets, and earned their living as such. Consequently, being in charge of the smooth functioning of markets, they had a profound understanding of the way markets actually functioned. Continuous and close observation of markets instilled in their minds respect for private property. For instance, Al-Shatibi and Al-Ghazali consider the protection of property, *hifz al-mal,* as one of the five purposes of Islamic jurisprudence, *Maqasid al-Shari'ah*.[13] The great fourteenth century historian and philosopher Ibn Khaldun had highly sophisticated ideas about economics and, reflecting the Prophet, favoured minimum state interference in the economy.[14]

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[12] Goitein, "Middle-Eastern Bourgeoise", p. 223.

[13] For a major modern study of the *Maqasid* see; Ibn Ashur, *Treatise on Maqasid al-Shari'ah*.

[14] Khaldun, *The Mukaddimah,* vol. II, ch. 5.

The immense importance of trade for Muslims is also demonstrated by the transfer of mercantile concepts to the religious sphere: the good and bad deeds of each person are *registered* in a *personal account book.* The Muslim will be judged according to these deeds recorded and will be rewarded with paradise if his good deeds exceed his sins. Having faith is like a *profitable transaction*; participating in the struggle of the Prophet is like *giving a loan* to God; each Muslim has a *covenant (contract)* with God.[15] It is believed that *Allah* buys Muslims' lives and properties and sells them, in return, the paradise.[16] This means that if a Muslim spends his/her life and property in the cause of *Allah,* he/she would be rewarded with entry to the paradise. But to be able to spend one's property in this way, property needs to be earned first. Therefore, it is believed that an honest merchant struggling to earn and enlarge his assets legitimately, will be exalted and shall join the ranks of the martyrs.[17]

Therefore, there is nothing surprising about the fact that Islam, a religion born in the Arabian Desert, where trade constituted the most important, perhaps even the sole economic activity, favours merchants, property rights, free trade and

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[15] Zaim, "Ekonomik Hayatta", p.4; Al-Attas, *Prolegomena to the Metaphysics of Islam* , p.144.

[16] Erkal, *İslam'ın Erken Döneminde,* p. 77.

[17] Qur'an 73: 20; Zaim, "Ekonomik Hayatta", p. 105.

market economy.[18] The Prophet himself has informed us that trade constituted nine-tenth of the livelihood of early Muslims.[19]

Because an economic system which favours merchants, respects property rights and free trade, applies the principles of market economy and market wage rate and treats interference in the markets as transgression and sinful would be considered capitalist,[20] I have no qualms about calling this Islamic economic system as such even though this term is so closely associated with western experience.[21]

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[18] For evidence that there was no textile production, tailors nor even mills in Mecca at the time of the Prophet see; Kallek, *Devlet ve Piyasa* , pp.85-6. Thus trade, indeed, appears to have been the sole economic activity.

[19] Gülen, *Iktisadi Mülahazalar,* p. 319.

[20] That there were many types of capitalism classified according to chronology and function is now generally recognized. The salient characteristics of all capitalist economies were the use of market for allocation and distribution of goods and factors of production. Hartwell and Engerman, "Capitalism", in J. Mokyr, *Economic History*, p.319. For an excellent account of a non-western, Chinese capitalism, see; Faure, *China and Capitalism,* p.48. On the Islamic disapproval of market interference see; Mirakhor and Iqbal, *An Introduction to Islamic Finance,* p.48.

[21] For a very detailed and rigorous discussion on whether the Islamic economic system can be called capitalistic see; Rodinson, *Islam and Capitalism*, 1974. Rodinson first approaches the problem from the Marxist perspective and declines to call Islamic economic system capitalist but then admits that it possessed a highly sophisticated "capitalist sector". This sector, was naturally, the trade sector and with the near total absence of agriculture and industry in the Arabia of the Prophet's time, it must have constituted some 75 to 90 percent of the economy. Thus, Rodinson's admission should actually be considered as a confirmation that the early Islamic economy was capitalistic. He also admits that "the merchants of the Muslim Empire conformed perfectly well to Max Weber's

The fact that the medieval Islamic economy was not industrialized, does not disqualify it from being capitalistic.[22] That capitalism is not necessarily associated exclusively with industrialization, has been confirmed long ago by Fernand Braudel.[23]

The capitalism that I am referring to here is pre-industrial, commercial capitalism. It naturally differs from the industrial capitalism referred to by Adam Smith and Karl Marx.[24] As it is well-known, stringent interest prohibition was a very important feature of this Islamic capitalism. In the absence of interest, the only way capital owned by a capitalist could be transferred to the entrepreneur was through the business partnerships. Since factors of production, particularly capital and entrepreneurship could be combined only this way, Islamic capitalism was actually a share economy where profits and losses were shared.

There are various types of these partnerships. It is generally agreed that the one known as the *mudaraba* was the most important one. This is due to two reasons, first, legitimacy – since the Prophet is known to have practiced *mudaraba,* this

criteria for capitalistic activity", *ibid.*, pp. 28-30. For substantial empirical evidence about medieval Islamic capitalism see; Labib, "Capitalism in Medieval Islam", vol. 29, No. 1.

[22] Although the term "medieval" normally refers to the period from the fifth to the fifteenth century Europe, it can and has been borrowed for the Islamic world. In this case, "medieval Islam" refers to the period from the seventh century, when Islam was revealed, to the mid-fifteenth century, when Constantinople was conquered and walls ceased to protect cities.

[23] Braudel, *Ekonomi ve Kapitalizm, XV-XVII Yüzyıllar*, 3. cilt, pp.199-200.

[24] For a brief account of these differences see, Lane and Commentators, "Meanings of Capitalism", pp. 8-9.

partnership enjoys consummate legitimacy. Second, simplicity – indeed, *mudaraba* is the simplest of business partnerships.

The consistency and the resilience of these classical partnership forms are quite impressive. Indeed, one can find exactly the same partnership forms, with hardly any change in their basic structure some ten centuries later in the Ottoman economy.[25]

Equally important, while we observe a remarkable continuity in the basic structures of business partnerships between the classical and Ottoman periods, we do not observe any major companies comparable to the powerful incorporated joint-stock companies of Europe, which colonized during the eighteenth century bulk of South and South-Eastern Asia.[26] This is in sharp contrast to the highly dynamic public finance. In short, my research led me to conclude that while we observe a long lasting stagnation in the evolution of private sector financial instruments, there was a remarkable evolution in public finance instruments.

These observations triggered further research, and starting from where I had left, Timur Kuran began to explore the reasons why such powerful companies did not emerge in the Islamic world. He focused, particularly, on the history of Islamic law and accused Islamic jurisprudence, the *Shari`ah* and the classical jurists for not allowing the corporate form and condemning Islamic companies to small size and short life span.[27]

Originally, I was favorably impressed by Kuran's arguments and have referred to them in my work.[28] But then I began to have my doubts and realized that far

[25] For details see; Çizakça, *Comparative Evolution, passim.*
[26] *Ibid.*, pp. 84-85; 134
[27] Kuran, *Divergence, passim.*
[28] Çizakça, "Cross-cultural Borrowing", pp. 689-90.

more powerful and yet subtle forces were at work. This induced me to develop a thorough critique of Kuran's thesis.[29]

An Alternative Explanation:

If, in contradiction to Kuran, Islamic jurisprudence did not impede corporations, why indeed then did partnerships or firms remain so small in the Islamic world? Moreover, the importance of corporations should not be exaggerated. Though, obviously, important for capital accumulation, they were, nevertheless, not a *conditio sine qua non* for rapid economic growth. Indeed, it is well-known that they played only a very marginal role during the industrial revolution, which was financed primarily by partnerships.[30]

Having dismissed the jurisprudential explanation, we still need to explicate the absence of corporations in the Ottoman economy. There was one powerful reason: the corporate form was simply not needed and true to the spirit of the Coase theorem,[31] because it was not needed, the corporation simply did not emerge in the Islamic world. Let us now examine why this important institution was not needed in the pre-industrial West-Asia.

To start with, known ever since the late eleventh century, the corporation was adapted by the European business community with a huge lag of half a

[29] Çizakça, "Long Term Causes of Decline"; Çizakça, Review Article: Timur Kuran, *The Long Divergence: How Islamic Law Held Back the Middle East* (Princeton: Princeton University Press, 2011) published in http://eh.net/bookreviews/library ; Çizakça, Review Article, Timur Kuran, *The Long Divergence: How Islamic Law Held Back the Middle East* (Princeton: Princeton University Press, 2011) *Review of Middle East Studies,* vol. 45, no. 1, 2011:117–119.

[30] Munro, "Tawney's Century", p. 132.

[31] Coase Theorem as interpreted by Kindleberger: "institutions respond to supply and demand, or to economic necessity. They always spring into being to perform necessary economic tasks", in Kindleberger, *A Financial History*, pp. 3-4, 44, 74, 206.

millennium. It was not accidental that this adaptation had to wait until the sixteenth century, because that was when the need surfaced in Europe. What then was this need? It can be summarized in a few words: the expansion of trade routes. For centuries, English trade was limited to cross-channel trade via Antwerp. But when the Antwerp crisis occurred, the need was felt to export English woollens directly to Russia. This was a truly long distance trade and necessitated large capital. It was to address this need that the first ever joint-stock company, the Russia Company, was established in 1553.[32] This was followed by the establishment of the Levant Company in 1581.

The closure of the port of Lisbon to the Dutch and the English, thus effectively depriving these nations even from the re-export trade of the eastern spices, also proved to be of far reaching importance.[33] Both of these nations were at war with the now united Iberian crown and they decided that they had to reach the spice islands on their own. First the North-East and then the North-West routes were tried and when both ended disastrously, it was decided that the ships had to sail along the known routes, across two oceans, the Atlantic and the Indian and, if necessary, fight the Iberians all the way to the Far East. For this, powerful and well-armed ships had to be built – a very expensive undertaking. Hence the need for corporation, which not only facilitated the pooling of large capital but also assured longevity for the firm. Both the English and the Dutch East India companies were charted-incorporated joint-stock companies.[34]

By contrast, in West-Asia Arabs and Iranians had easy access to the spice islands. Indeed, very roughly, the distance an Arab vessel had to cover from

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[32] Munro, "Tawney's Century", p. 128.
[33] That is to say, re-exporting the spices from Lisbon to the rest of Europe.

[34] Van Dillen, *Van Rijkdom en Regenten;* Keay, *The Honorable Company. Passim;* Munro, "Tawney's Century", p. 132.

Basra to Surat was merely one-seventh of that of an English ship that had to sail from London. Moreover, the routes and the sailing methods had been known and perfected by Arab sailors centuries ago. The Indian Ocean was a free trade zone, *mare liberum*, and Muslim shipping there was based upon small ships owned by just a few partners. There is evidence that Mediterranean ships were in general considerably larger than the Indian Ocean ships despite the fact that the former was a mere inland sea. It seems what determined the relative size of the ships was not so much the elements but rather the need to equip them for combat. Moreover, prevailing technology also played a role. While it was possible to make holes for cannons in the outer skin of the European ships, this was not possible for Indian Ocean ships. Thus, to the extent that large ships existed in the Muslim Indian Ocean shipping, they were designed to carry large numbers of pilgrims and cargo, but not cannons.[35] In short, geography and politics were certainly very important, they made it imperative for Europeans to incorporate, while this was not the case for Muslims.

Another important reason why the corporate form was needed by Europeans but not by West-Asians and consequently, Islamic firms remained ephemeral and small, was the concept of property rights. According to Douglass C. North, there is a direct relationship between property rights and firm size, insecure property rights leading to small firm size.[36] If so, it would be appropriate here to investigate the prevailing property rights in West-Asia with the hypothesis that small firm size may well have been caused by imperfect property rights. I will do this comparison for the early modern/Ottoman period as it is this period which specifically corresponds to the rise of powerful incorporated joint-stock companies in Europe.

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[35] Utku, *Kızıldeniz'de Denizcilik*, p. 241, 244.

[36] North, *Institutions, Institutional Change*, p. 65.

As in most societies, in the Ottoman Empire also, the mercantile class had the greatest potential for advancement. In the Ottoman economy, however, the mercantile class was effectively prevented from advancing its status. Elsewhere, I have called the Ottoman economic doctrine as “proto-quasi socialist” – “proto”, because it antedated Karl Marx for centuries and “quasi”, because, unlike the Marxian socialism, the Ottoman system was not based upon class conflict but, on the contrary, on the preservation of harmony between the classes. To preserve this harmony, however, the state applied pressure upon the mercantile class and ended up choking it. Thus, if not in theory, at least in application, the Ottoman system was proto quasi-socialist.[37] Recently, Stoianovich as well as Inalcık and Quataert have also described the Ottoman

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[37] Murat Çizakça, *Comparative Evolution,* 1996, p. 210. I have been criticised by Hans-Georg Majer for using a term invented by Karl Marx for the sixteenth century Ottoman economy. But my depiction of the Ottoman economic system as “proto quasi-socialism” simply argues that just as there were capitalist or quasi-capitalist systems before Adam Smith, so was there an Ottoman proto quasi-socialism before Marx. Actually, it was Ömer L. Barkan, who more than half a century ago, probably for the first time, applied the term socialism to describe the Ottoman system. The precise term he used was: “a type of war socialism” (*Bir nevi harp sosyalizmi*). See; Barkan, “Bazı Büyük Şehirlerde”, p. 327. On the existence of many types of capitalism, some before Smith, see; Hartwell and Engerman, “Capitalism”, p. 319. For an excellent account of a pre-Smithian and non-European capitalism see; Faure, *China and Capitalism*.

economy during the period 1300-1800, in similar fashion, as a "command economy".[38]

Actually, in order to maintain harmony between the classes not only the mercantile class but even the military/ruling class, *askerî*, was prevented from advancing too far. While in power, some members of this class could earn massive salaries and other income related to their positions. But this income could be earned only as long as the person remained employed and his tenure continued. When the person retired or fell from favour, his income was either confiscated or reduced to one percent of what it was.[39]

Being appointed as *celepkeşan* was another way accumulated wealth could be encroached upon. *Celepkeşan* were the unfortunate wealthy individuals, usually merchants or usurers, who were appointed as *celep*s to purchase large numbers of sheep in the Balkans at market prices and then sell these in Istanbul at the prevailing state imposed *narh* prices, which were less than the purchase prices.[40] Consequently, being appointed a *celep* almost always meant financial ruin. The system lasted from the late fifteenth century to 1597. It can be stated without any reservation that while it lasted, that is, for at least a century, the system must

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[38] Stoianovich, "Cities"; Inalcık and Quataert, "General Introduction", *Economic and Social History,* pp. 1, 45-47.

[39] When the failed commander in charge of the second siege of Vienna, Merzifonlu Kara Mustafa Paşa, was executed, his confiscated wealth stood at the staggering figure of 225.000.000 akçes. This was about 20% of the revenue of the Central Treasury for that year. Erol Özvar, *Malikâne Uygulaması*, p. 16-17. When Şeyhülislam Feyzullah Efendi fell from favor, he was cruelly tortured to make him reveal the whereabouts of his hidden treasure. I owe this point to Erol Özvar.

[40] Greenwood, *Meat Provisioning*, p. 279.

have impeded capital accumulation significantly. Indeed, the *celepkeşan* can be considered as a proto quasi-socialist policy *par excellence* because, it targeted the accumulated wealth of the rich and distributed it to the masses.

Actually, the Ottoman *celepkeşan*, should be considered as a special form of the much more important, long lasting and more general institution of confiscation. Indeed, while the *celepkeşan* lasted for merely a century, confiscation can be traced to the very beginnings of Islam. There are several *ahadith* reporting that when informed about some embezzlements committed by an official, the Prophet became very angry and declared: "misappropriation by an official of even the smallest item is betrayal and theft". Probably based upon this *hadith,* Caliph Omar began to apply systematic confiscation of corrupt officials. At that period the usual practice was to confiscate half of the property of the official in question.[41] Under the Umayyads not only confiscations increased in frequency and became an instrument of threat and revenge, but they were also institutionalized with the establishment of a special office of confiscations, *Dar al-istihraj.* When the Abbasids came to power, they not only executed the members of the Umayyad dynasty but also confiscated their wealth. Abbasids established a special court of confiscation, known as the *Divan al-mezalim.* Under the Abbasids, confiscations were also extended to the properties of the companions' and the relatives' of the corrupt official. Between the years 908-946 thirty, and in the period 946-991, ten confiscations have been recorded.[42] Extension of confiscations to the wealth of the civilians seems to have occurred for the first time, again, under the Abbasids. In Egypt, members of the Tulunid dynasty could not escape confiscation when they fell from power. Confiscation of the wealth of the officials as well as innocent civilians continued under the

[41] Tomar, "Müsadere".

[42] *ibid.* p. 65.

Fatimids. For the Mamluk ruling elite, confiscation was an instrument of eliminating the rivals. In central Asia, Ghaznavids and in Iran Selcukids also applied confiscations extensively.

Under the Ottomans, confiscations appear to have reached a zenith. The first major well known confiscation occurred during the reign of Mehmed II in the second half of the fifteenth century. Following the centralization of power in this period, confiscations were extended to all important officials regardless of their guilt or failure. This is because, all wealth accumulated by a government official was regarded as originally belonging to the state and therefore considered subject to confiscation. Legitimised in this way, confiscations were normally limited to the members of the privileged military/ruling class. But as the Empire began to fight wars on three fronts with European powers, plus Iran, defeats began to occur by the late seventeenth and eighteenth centuries, and confiscations were extended to non-military class individuals as well. Moreover, confiscations did not remain limited to the capital but were extended to the provinces. Lower level provincial officers also began to confiscate the properties not only of their rivals but of the innocent wealthy as well. During the 1768-1774 war with Russia, even the modest properties of small scale craftsmen were confiscated. In the early nineteenth century Mahmud II resorted to confiscations to wipe out the power of the provincial *ayan*s. This same sultan did not hesitate to confiscate even the *waqf* properties of the abolished *janissary* corps.[43] Since a comparative study of confiscations and violations of property rights at global scale has not been made, we do not know whether these West-Asian practices were in any way unique or reflect a universal practice of the period.

[43] Öğün, “Müsadere; Osmanlılarda”, pp. 67-68. Confiscations became illegal in the Ottoman empire in the year 1839.

One case from the eighteenth century Diyarbakır, a remote province, is particularly revealing. We are informed by Mehmet Genç that when a major merchant died in Diyarbakır, his wealth was confiscated. Normally, according to Islamic law, the state is not permitted to do this to the rightfully earned property of a free Muslim. Indeed, protection of property, *hifz al-mal*, is considered to be one of the tenets, even a *raison d'être* of Islamic law.[44] But the argument put forward by the officials to legitimize this confiscation, in itself, was most revealing. Indeed, it had been argued that a fortune of this magnitude could not have been accumulated by trade. It could only have been accumulated by tax-farming. Since tax-farmers were members of the ruling class, the *askerî,* the deceased could be considered a member of the military/ruling class. Therefore, his wealth could be confiscated![45]

This case reveals a number of important points. First, beginning with the disastrous second siege of Vienna in 1683, the state was forced to take extra-ordinary steps. One of them was extending confiscations to civilians despite the fact that fortunes collected by the private sector were considerably less. Indeed, the wealth of this merchant was about one-half or even one-fourth of the fortune of an average member of a military/ruling class person.[46] Second, the argument used for this unusual step reveals that merchants' profits must have been controlled, because it is taken for granted that trade does not enable a person to accumulate much wealth. Third, the argument that substantial wealth can only be accumulated by tax-farming suggests that there must have been different rates of profits associated with different sectors in the economy. It is indeed clear from the text of the document that profits in tax-farming must have been

[44] Çizakça, "Democracy".

[45] Genç, *Devlet ve Ekonomi*, p. 75.

[46] Genç, *ibid.* p. 75.

allowed to be higher, probably significantly higher, than in other sectors. This suggests the existence of a massive crowding-out effect in the Ottoman economy leading to a flow of investable funds from all sectors to tax-farming, where higher profits were permitted. Put differently, the bulk of the savings of the private sector available for private investment must have been sucked in by the state sector through tax-farming, leaving little for private investment.[47]

This is indirectly confirmed by Nelly Hanna,[48] who has documented that the famous merchants of the seventeenth century Egypt, the Abu Taqiyyas, shifted their investments from trade to tax-farming indicating the prevalence of higher profits in that sector- a clear case of the state sector crowding-out the private sector.[49] In her more recent work, Hanna has given further evidence on merchants even artisans of Egypt entering into the tax-farming sector. But apparently, we cannot talk about a massive crowding-out phenomenon as suggested above as the merchants and artisans, who penetrated the tax-farming sector also maintained their original activities. What Hanna's new work suggests is the relative ease with which people could move between different occupations or the existence of what she calls "horizontal and vertical mobility".[50] Can Hanna's observations about Egypt be generalized for the Ottoman empire? Most probably not, because in Istanbul, the Balkans and Anatolia Jews were evicted

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[47] This, in itself, must have been very harmful for the economy. Because funds were withdrawn from the most productive sector of the economy, the private sector, into the least productive one, the state sector.

[48] Hanna, *Big Money,* p. 41.

[49] Tax-farming was privatized tax collection. Though primarily a private sector activity, it is still considered as a state sector activity since the collection process was institutionalized by the state and the taxes thus collected were channeled to it.

[50] Hanna, *Artisan Entrepreneurs,* chs. 3 and 4.

from the tax-farming system and replaced by the members of the governing elite (*askeri sınıf*) after the 1610s. Moreover, out of the 134 tax-farms examined, 42 were "frozen". These so-called frozen tax-farms came to be monopolized by this elite among whom the tax-farms were rotated regularly.[51] Thus, the relative fluidity observed by Hanna appears to have been the result of the very special *mamluk* system in Egypt that cannot be observed elsewhere.

The gist of the above arguments is the existence of differential rates of profit permitted in the economy. This needs to be examined further. Based upon a decree dated 1501, Ömer Lütfi Barkan informed us long ago that, possibly from the middle of the fifteenth century but, definitively from the beginning of the sixteenth until the second half of the nineteenth centuries, the Ottoman state controlled prices, and through prices, profits. Moreover, artisans were normally not permitted to earn profits of more than ten percent. Mehmet Genç confirms this and reports that throughout this period, the Ottoman state constrained the profit rates for merchants and artisans to between five and 15 percent, the exact rate depending upon the nature of the activity.

Since these maximum profit rates were sustained for more than three hundred years and observed operating in such diverse places as Istanbul, Bursa (Turkey), Salonica (Greece) and Cairo (Egypt), we can reach the conclusion that limiting profit rates of merchants and artisans by controlling prices was a general Ottoman policy affecting the bulk of West-Asia.[52]

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[51] Çizakça, *Comparative Evolution,* ch. 5.

[52] Ömer L. Barkan, "Bazı Büyük Şehirlerde", p. 340; Mehmet Genç, "Osmanlılar", p. 528. Şevket Pamuk, however, has warned that the Ottoman state applied a maximum price policy, *narh*, only during extra-ordinary times. See; his *500 Years of Prices and Wages in Istanbul and Other Cities* (Ankara: BDİE, 1998), appendix 3.3, pp. 164-69. But, Pamuk's own data reveals that *narh* orders have been issued for 163 years out of

These low profit rates are definitively confirmed by a law from the reign of Mehmed IV, dated 1680.[53] But this law essentially repeats the same profit rates promulgated by the 1501 one reported by Barkan. Such constantly low profit margins imposed by the state over a period of almost two centuries confirm the rigidity of the Ottoman economic doctrine. The Ottoman state enforced its low profit rate policy by imposing price controls or maximum prices. In another law known as the *Tevkıî Abdurrahman Paşa Kanunnâmesi,* it is stated that unless a pertinent *ferman* is issued, prices cannot be increased or decreased. Indeed, *narh* did not always entail an increase in prices. Sometimes it involved a *decrease,* occasionally even substantially.[54] We do not know to what extent this law was

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a total of 319 years between 1520-1839, roughly one order every two years. Moreover, this does not take into consideration occasional multiple *narh* orders issued in a single year. Thus at least half of the period in question has witnessed *narh* imposition. Since *narh* imposition implies low profits, we are not surprised that low profit rates have been confirmed by the court registers as well. Consider the following cases in 1672 (4.5 percent - silk trade), 1801 (8 percent - grocery) and 1803 (6 percent - stone masons) see; M. Çizakça, *Comparative Evolution,* pp. 71-81.

[53] "Bilcümle şehir içinde bey' u şira eden ehl-i hırefe nezaret olunub her kişinin harcını, sermayesini zahmetini görüb ve onu onbir üzere narh verile. Meğer gayet zahmetli ve emekli iş ola. Ol vakit onu oniki kâide konup tecâvüz olunmaya. *Ve hiçbir nesne olmaya ki kadı ve muhtesib mârifetiyle narh verilmeye*", Ergin, *Mecelle*, c. 1, s. 390. That the generally approved profit rate was 10 percent and for exceptionally difficult production processes upto 20 percent, is also confirmed by; Ömer L. Barkan, "Bazı Büyük Şehirlerde", p. 340.

[54] In reality, *narh* prices were determined and administered by *Kadıs* supported by government officials. Occasionally the Sultans, themselves, ordered the imposition of *narh.* M. Kütükoğlu, *Narh Müessesesi*, p. 7, 12.

applied in reality. But to the extent that it was, we are given the impression that prices were by and large determined by the authorities and not by the markets – a very clear quasi-socialist trait.

Moreover, since all production, from the raw material to the final product, was organised by the guilds, each guild tried to control the prices of the other, whose final product it consumed as its input. Thus input-output relations along the production process organized by the guilds, was another factor that helped control the maximum profit rates imposed by the state. The strictly guild and *narh* controlled production process appears to have functioned as a zero sum game, with any guild able to increase its profit rate only at the expense of that of another further along the production process. Consequently, the guilds controlled each other, both in terms of prices charged and profits earned. When in case of conflict, the parties appealed to a court, the latter always ruled according to the rates and prices promulgated by the law. The mechanism of *narh* controlled prices continued, not only in Istanbul but also in the provincial cities, until the middle of the nineteenth century.[55]

Profit controls imposed by the state, do not constitute the only impediment to the accumulation of mercantile capital. Another equally important factor is the relationship between profit rates and the prevailing rate of interest. Adam Smith has argued that an important condition for capital accumulation is that the interest rate (marginal cost of capital) should be about half as much as the "ordinary rate of clear profit". In the Ottoman Empire roughly the reverse was true.

Now, the reader may be puzzled about the relevance of this for an Islamic economy, where interest is prohibited. Yet, despite the interest prohibition,

[55] M. Kütükoğlu, *Narh Müessesesi*, p. 8, 18.

unofficial yet *de facto* interest existed in the Ottoman capital market. If so, to fulfil Adam Smith's condition, for Ottoman merchants to accumulate capital this prevailing interest rate should have been about 2.5 to 10 percent, that is, half as much as the average rate of permitted profit of 5 to 20 percent. But the prevailing rates of interest in the unofficial Ottoman capital markets were between 15 to 25 percent.[56] Thus merchants could have access to capital only at interest rates well in excess of the permitted profit rates, a situation certainly not conducive to capital accumulation. Among the contemporaries, it was Montesquieu, who noticed the higher rates of interest prevailing in Islamic countries. He attributed this to the prohibition of interest and the consequent increase in (transaction) costs associated with trying to evade Islamic law.[57]

[56] M. Genç, *Devlet ve Ekonomi, cit.,* p. 51. Cash *waqf*s lent at around 11 to 12 % "economic interest", a situation, which naturally led to the emergence of a secondary capital market. Indeed, it has been shown that some trustees borrowed money from the very *waqf*s they managed in Bursa, only to lend it with a margin to the money dealers in Istanbul. M. Çizakça, *Philanthropic Foundations*, cit*.,* p. 49. This has been confirmed by R. Deguilhem, *Wakf, the Ottoman Empire*, in *Encyclopaedia of Islam*, Leiden 2004 (Brill), p. 89. Most recently, Salakidis showed that cash waqfs in Greece invested merely 70 percent of their capital with the implication that trustees kept the remaining 30 percent for their own businesses, a situation which led to frequent litigations by the beneficiaries (I owe this point to Özer Ergenç). Moreover, the prevailing interest rates were constantly on the rise. They increased from 11-12 percent during the 16th century (Çizakça, *ibid*) to 15 percent during the 17th century (Salakidis) and to 20 plus percent during the 1730s (Adıyeke). This can be contrasted with the present Turkey, where the Prime Minister Erdoğan declared that his goal is to reduce the real rate of interest to zero percent.

[57] A. SMITH, *The Wealth of Nations*, New York 1937 (Random House), pp. 96-97.

Whatever the causes of these relatively high rates of interest may have been, the real impediment to capital accumulation was the considerably lower rates of permitted profitability *vis a vis* the prevailing very high rates of interest.

The most important and direct challenge to the private enterprise took place after 1826 in response to the very special circumstances of the period[58], when the Ottoman state decided to establish trade monopolies and entered directly into the business of international trade. This was an unprecedented action and aimed at generating much needed extra revenue for a depleted treasury.[59] The system also aimed at internalizing profits of the international trade sector which had been exceeding for some time the usual government imposed limits referred to above. It was also thought that monopolies would make export articles more expensive thus not only make them more easly available for the domestic industry but also generate the much needed revenue. The system was envisaged as a way to make the foreigners pay for the expenses of the state.[60] This was assured by authorizing government officials to collect all production from the country side and then send them to Istanbul and other major cities at zero tax for domestic consumption but then subject those reserved for exportation to very high taxes. Since the latter were bought first by local merchants working for foreigners as their agents, taxing local merchants did not violate the commercial treaties previously signed with the great powers (capitulations). What brought the *yed-i vahid* monopolies to an end was British threats which forced the Ottoman state

[58] Abolution of the Janissary corps, the need to establish a new army, the Greek uprising and the destruction of the Ottoman navy in Navarino by the combined forces of England, France and Russia.

[59] For full details see, Mehmet Genç, "Yed-i vahid", in *İslam Ansiklopedisi* (Diyanet), forthcoming. I am grateful to Mehmet Genç for allowing me to read and refer to his yet unpublished work.

[60] As such, it was based upon the assumption that there was inelastic demand for Ottoman export products.The concept of income elasticity of demand was known even to Ibn Khaldun, the famous fourteenth century historian. See *The Muqaddimah,* vol. II, p. 276.

to sign the 1838 Baltalimanı Treaty. The Baltalimanı convention eliminated all state monopolies and brought the Ottoman empire to the era of free trade.

To sum up, these Ottoman practices represent a serious deviation from the classical Islamic traditions, which had far greater respect for the markets. Under these proto-quasi socialist conditions of limited profits, restricted property rights and controlled prices, it is no wonder that capital accumulation remained limited among the Ottoman merchants and artisans.

Conclusion:

In West-Asia, while classical Islamic capitalism financed the emergence of a magnificient civilization, which Abu-Lughod had described as one of the three pillars of the Indian Ocean world-economy, Muslims gradually abandoned their capitalist principles and opted for a proto quasi-socialist system which reached its zenith with the Ottomans. Thus the Ottoman proto quasi-socialist system has the dubious honor of having collapsed even prior to the Soviet Union before the relentless onslaught of western capitalism.

It was this western capitalism which financed western imperialism and it was this imperialism which colonized the bulk of the Islamic world. As the famous military doctrine goes, offensive weapon must be matched by the defensive one. If the west utilized its capitalism to finance its imperialist ventures and colonization, then the survival of the Islamic world and the recovery of West-Asia would be possible only with a modernization of its own classical capitalism which lies right at the heart of its religion and culture.

But capitalism does not emerge in a vacuum – it has to operate within a nexus of principles and institutions. While an examination of the details of this nexus lies beyond the confines of this paper, the work has started and substantial progress has already been made.[61]

[61] Cizakca, *Islamic Capitalism and Finance, passim.*

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