

# Fiscal Crisis and Institutional Change in the Ottoman Empire and France

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- Why do institutions conducive for growth emerge in some places but not in others?
- Analytic Narrative of the evolution of institutions related to public finance in early-modern France and the Ottoman Empire.
- Were Ottoman institutions incapable of adapting? (Kuran vs. Pamuk). Is there a trade-off between adaptability and credibility?

# The Story

## Fiscal Crises at the Beginning of the 17th Century



### Institutional Failure

France

Emergence of cartel of  
tax collectors

secure property rights

Ottoman Empire

Tax system became  
more decentralized

insecure property rights

# Why the Differential Response?

Transaction Costs of Collective Action Differed.

France  Capital Pooled at Low Cost

Natural vs. Corporate Person

Tradable Shares

Separate Ownership and Control Rights

Ottoman Empire  Capital Pooled at high Cost

Laws Governing Inheritance and Partnerships

Existence of the Cash Waqf

Lack of Corporate Personhood

# Similarities: The Institutions of Public Finance in 1600

France

Ottoman Empire

*Taille* (50%)



*Timar System* (60%)

“Direct” taxes

Collector paid a fixed fee

*Tax Farms* (30%)



*Itizam* (30%)

“Indirect” taxes

Tax auctioned off and  
collector residual claimant

Lending

Figure 1: Budget Surplus and Deficit in France, 1523 – 1698 (100,000's of Setiers of Wheat)

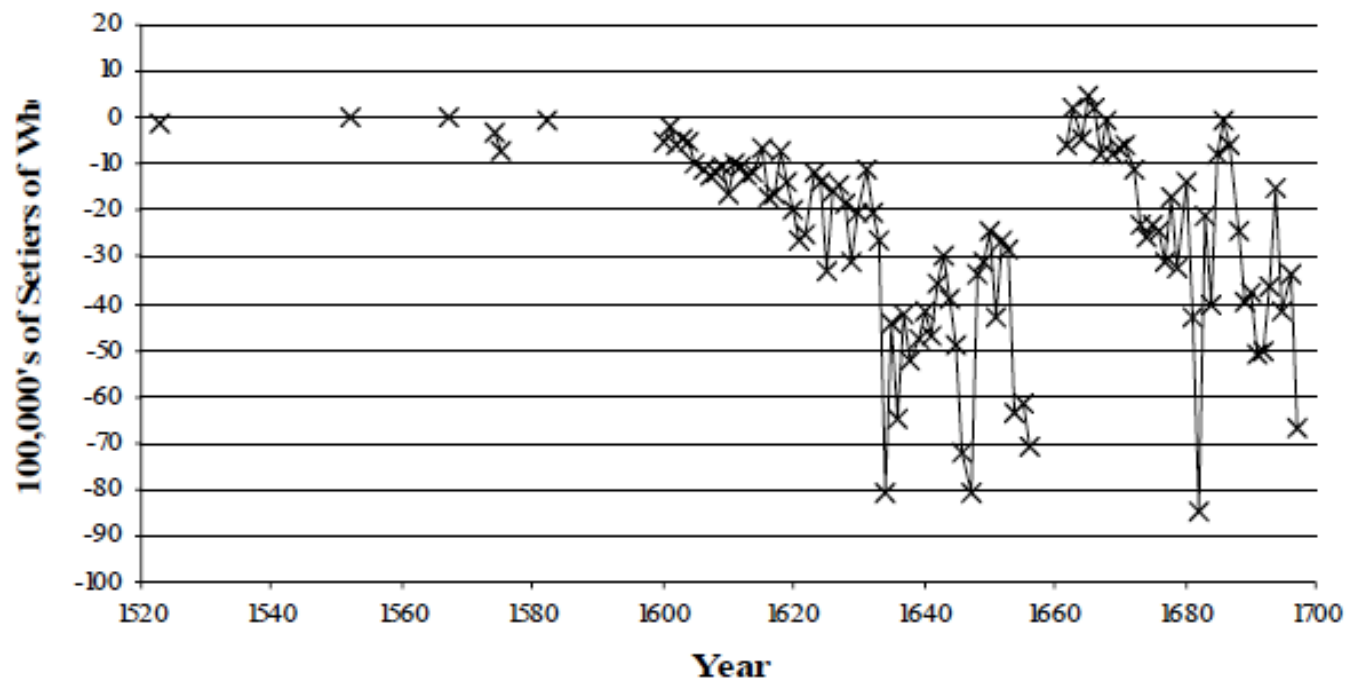


Figure 2: Budget Surplus and Deficit in the Ottoman Empire, 1523 – 1698 (100,000's of kile of wheat flour)

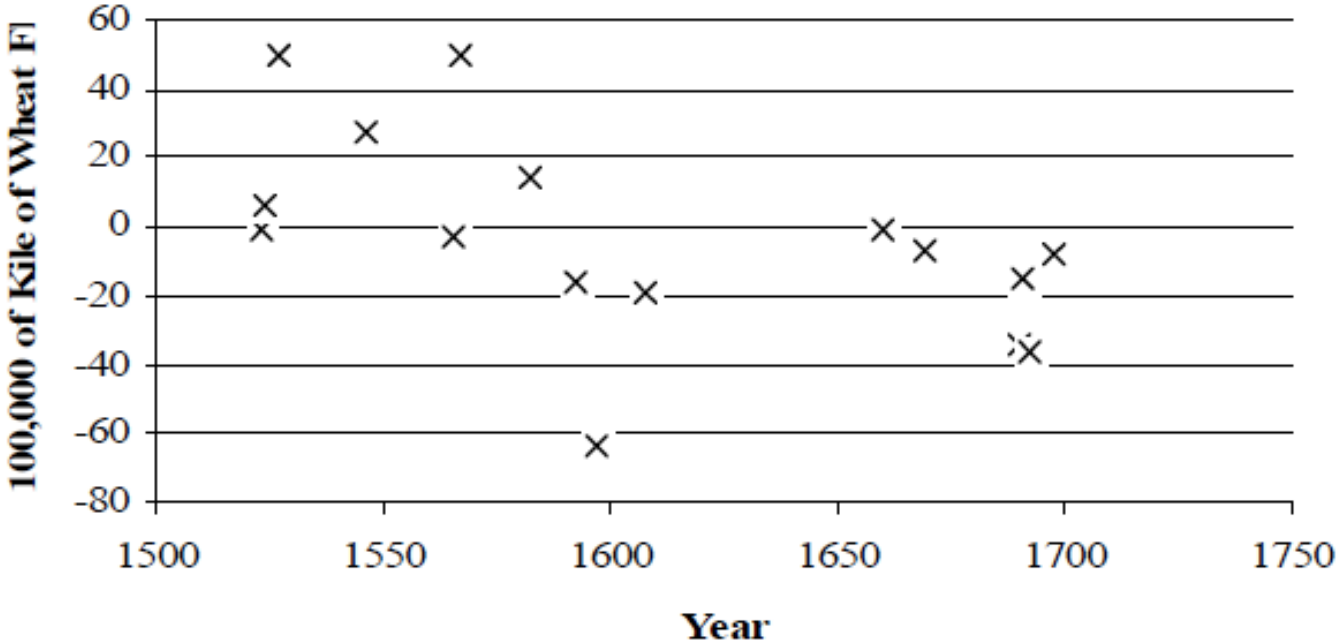
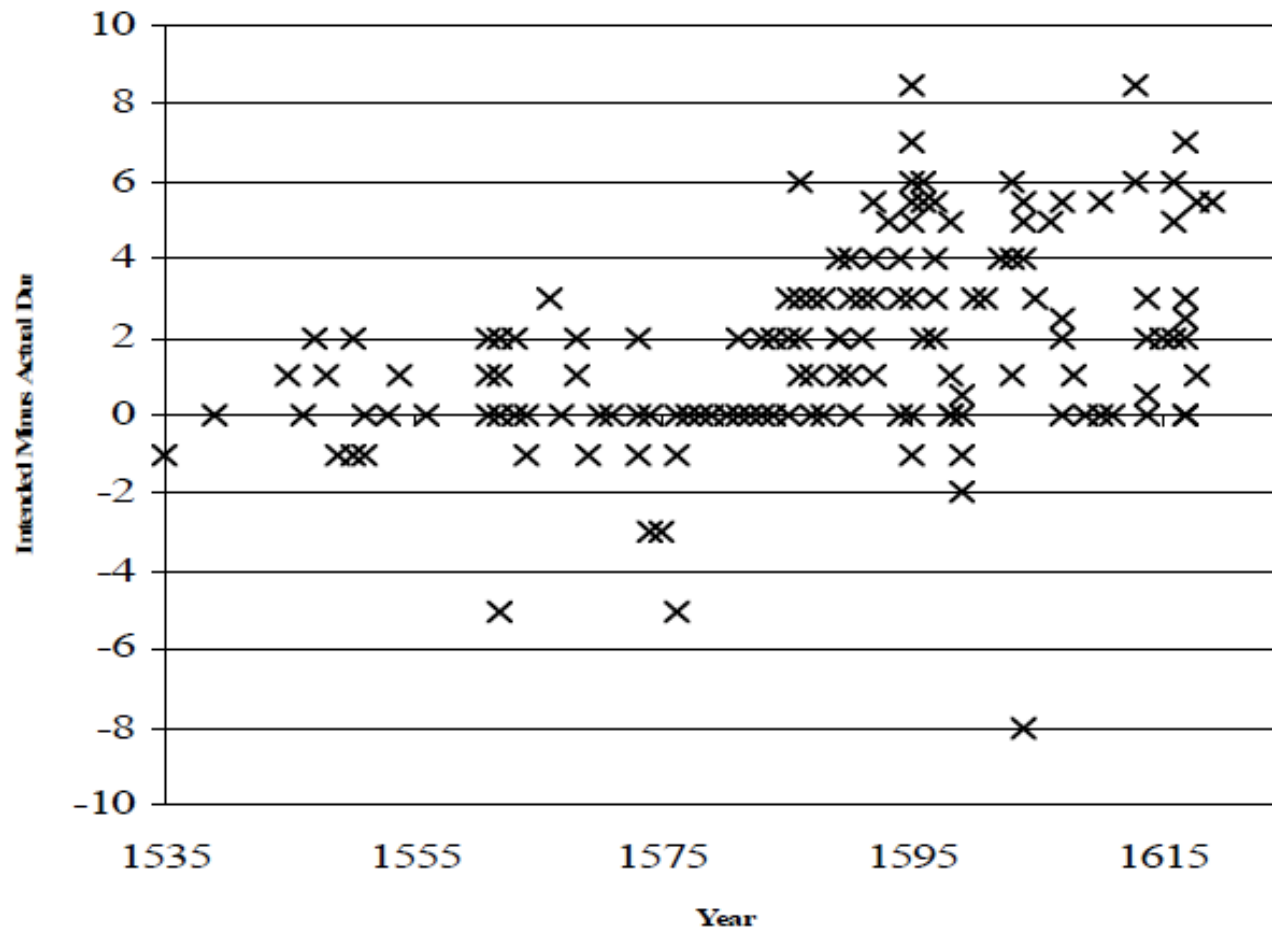


TABLE 3  
 PERCENTAGE OF RUPTURED LEASES ON A GIVEN TAX FARM, 1598–1655

Percentage of leases broken	0	<10–20	20–30	30–40	40–50	50–60	60–70
Number of tax farms	25	9	8	11	11	1	3

*Note:* See the text for the source of the data.

Figure 4: Difference Between Intended and Actual Duration of Ottoman Tax Farm Contracts, 1535 - 1620



# The Rise of the Company of General Farms

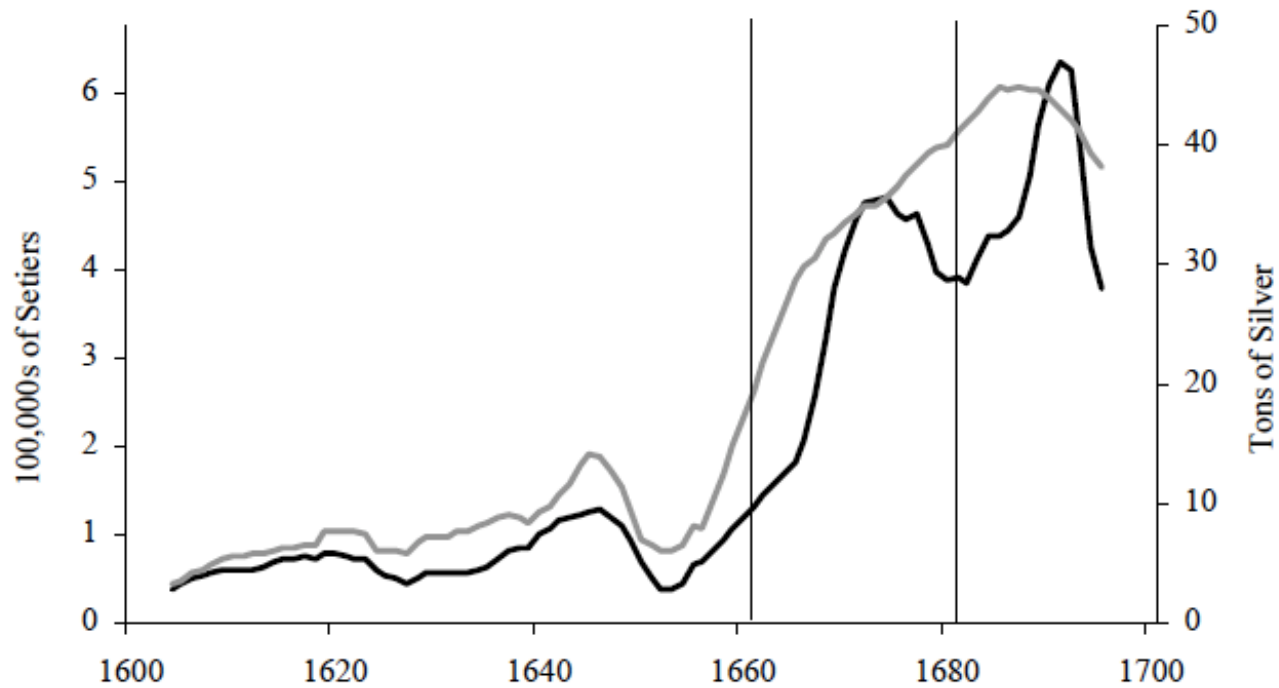


FIGURE 1  
REAL TAX FARM REVENUES, 1600–1695  
(five-year average)

*Note:* A setier is about 152 liters.

TABLE 2  
“ONE FARM” AND “TWO FARM” CONCENTRATION RATIOS, 1600–1700

	1600–1656	1661–1681	1682–1700	1695–1700
One Farm	0.33	0.34	0.52	0.84
Two Farm	0.52	0.62	0.73	0.92

*Note:* The data come from Bonney and Bonney, *Jean-Roland Malet, and France, Archives, KK335*.

# Response to Fiscal Crisis in Ottoman Empire

Itizam (short term tax farms) converted to Malikane (life grant tax farms) beginning in 1695

In early years, 150-300 new leases auctioned off annually. Steady-state of about 1,000 to 2,000 during 18th century.

Malikane (life grant tax farms) became dominant source of revenues along with Cizye (religiously prescribed head tax).

Life grant tax farms were important for revenues well into the 1840's.

# Response to Fiscal Crisis in Ottoman Empire

Property rights over Malikane contracts remained insecure in the Ottoman Empire during the eighteenth century.

1714 retracted contracts in most provinces and then reinstated them in 1717 at 50% premium lease price

Malikane contract owners began to disregard the law. Passed contracts to next generation. Stopped sending revenues to Istanbul. Rise of the Ayan bandits from 1768-1774.

Muhammad Chalabi Tahazade held about 1/5 of life grants in 1777, exiled and his contracts were confiscated.

# Transaction Costs of Collusion: Cultural Homogeneity

## France

Mainly Protestant

Lived in Paris

Between 1590 and 1653 there were 303 different signatures on tax farm contracts of which 81 signed multiple contracts

Between 1681 and 1708 there were 88 signatures of which 62 signed multiple contracts

## Ottoman Empire

Muslims, Christians, and Jews

Lived all over the Empire from Southeastern Europe to North Africa and the Middle East

Of 96 Ottoman tax farmers between 1611 and 1630, 60% were Muslim, 27% Jewish, and 13% Christian

# Transaction Costs of Collusion: Capital Pooling

## France

Limited Partnership  
(acte de société)

Separated ownership from  
control rights in Company of  
General Farms

Company had standing as a legal  
person

Member of the Company sold  
cautions (stock) to finance his  
position

## Ottoman Empire

Lack of distinction between  
natural and legal personhood

Institutions emerging from Pre-  
Islamic Middle East emphasized  
umma (Muslim community) and  
individual, de-emphasized  
intermediate organizations

Kuran story about inheritance  
law and partnerships

Waqf (unincorporated trust) as  
a viable alternative to raise  
capital

# Conclusions

Egalitarian inheritance law and the provision of public goods through waqf system were, initially, highly successful institutions.

However, they had the unintended consequence of raising the transaction costs of pooling capital in the private sector.

Our main contribution is to argue that these high transaction costs had ramifications, not just for the rise of the corporation, but also for public institutions

# Conclusions

One of the primary means that political change was forced in Old Regime France was via quasi-private organizations that used their capital to punish the king for violating property rights

In 1762, 1767, 1770 there were 60, 50, and 60 million livres tournois of short-term debt issued by the Company of General Farms in circulation. This compares to the crown's debt service in 1764 of 124 million livres tournois.

In 1783 the Finance Minister D'Ormesson was fired after attempting to wrest control of taxes "owned" by the Company of General Farms.

# Conclusions

The French Revolution was, to some extent, a creation of the untenable fiscal situation in 1788. This was *worsened* by the existence of the Company of General Farms.

## Fundamental Political Reform Ensued

In the Ottoman Empire, institutions dedicated to public finance could be manipulated on the margin as crises emerged

Ultimately, the Ottoman Empire went out with a whimper, not a bang.