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Salt of the Empire: the making of an Ottoman monopoly, 1838–1881

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Abstract

The present article is a study of the fiscal history of the Ottoman salt monopoly before 1881, when it was taken over by local and European creditors. It brings a novel perspective to the literature on Ottoman finances by highlighting a case of centralized collection of an indirect tax. It argues that the interplay between the government's urge to raise indirect contributions and the consumers' proclivity to illicit salt determined the enterprise's sustainability. Not merely a security for European credit, the salt monopoly was a genuine Ottoman institution in the transformation to a modern fiscal state.

Keywords: Ottoman Empire; finance; taxation; consumption of salt; monopolies

Introduction

The history of the Ottoman salt monopoly as a fiscal enterprise is eclipsed by the history of public debt. The establishment, operations, and challenges of the monopoly are not mentioned in the works on the Ottoman finances despite the fact that salt revenues were the most significant indirect contribution in the last quarter of the nineteenth century. Mostly confined to the narration of its security function for foreign credits, the history of the Ottoman salt monopoly provides, on the one hand, an answer to the question that preoccupied most historians of Ottoman finances, the centralization of tax collection. On the other hand, it offers a case of changing dynamics of Ottoman finances, by which the government experimented with a new indirect tax and negotiated with the Ottoman consumers the extent of the burden of deficit and debt to be carried on their backs.

By shifting the focus from the debt relations, history of which overwhelmingly relies on the correspondences of the European bondholders, to the dynamics of the salt market, this article strikes in a new direction and explores the making of the Ottoman salt monopoly through its institutional infrastructure, competitive sustainability, and operational challenges with reference to the formation of a modern fiscal state. Questioning the oft-cited narrative of the “penetration of Western imperialism,” this article illustrates how the Ottoman officials experimented to turn the salt trade into a profitable enterprise under free-market conditions, particularly after the Anglo-Turkish Convention of 1838. By contextualizing the

Ottoman moves of decoupling the collection of salt revenues from tax farming practices and establishing a protected salt market as distinct processes in its making, this study contends that the Ottoman salt monopoly was not a hollow institution functioning merely as a security to facilitate access to European credit. Instead of simply taxing salt, the Ottoman government monopolized its production and sale, marketing it to consumers at prices more expensive than those in an open market. The monopoly alienated a broad section of Ottoman society, disenchanting a major proportion of the salt-dependent producers, and created lucrative opportunities in the black market. More importantly, however, it established the basis of a centralized collection of indirect taxes. By telling this story, this article aims to reinsert the salt monopoly as a major episode into the fiscal transformation of the Ottoman Empire.

The history of the Ottoman salt monopoly has suffered from a tug-of-war between the European studies dealing with the control over the economic resources of the Empire and the Ottoman/Turkish works underpinning the Ottoman failure to service the debt as a manifestation of imperialism. As pioneers of the studies on the Ottoman public debt, the European writers in the early twentieth century, not surprisingly, scrutinized the salt monopoly mostly in terms of the administration of its revenues (Morawitz 1902; du Velay 1903; Blaisdell 1929). In the absence of official Ottoman records, the fact that they simply ignored the period before 1875, in which the Ottoman government declared default, implies that the Ottoman salt monopoly was a flawed, if not a non-existent, institution (Anderson 1964; Raccagni 1980; Clay 2000). Mostly relying on the data provided by early European authors, the Turkish scholars almost exclusively focused on this period as well, treating the Ottoman Public Debt Administration (OPDA) as an instrument of imperialism (Yerasimos 1975; Gürsoy 1984; Karamursal 1989). Despite extending the penetration of Western imperialism up to 1839, almost none of these works has raised any questions whatsoever on the transformation of the Ottoman salt market. Notwithstanding the edgy differences, two strands, thus, share common ground in paying little or no attention to the Ottoman salt monopoly before 1881.

The current scholarship on either the salt administration or the nineteenth-century Ottoman finances offers only a meager understanding of the Ottoman salt monopoly. This is because the overwhelming interest in the salt administration was confined to the early modern period as most scholars scrutinized it as a fiscal instrument in the broader fiscal transformation of the Empire (Güçer 1962–1963; Grozdanova and Andreev 1982; Maxim 1988; Savaş 2000; Erin 2003; Balta and Yılmaz 2004). Such an elaboration, however, almost vanished for the nineteenth century though the case of the salt monopoly was the perfect example of the overarching preoccupation of the extant scholarship: fiscal centralization. The limited number of studies, more often than not, offers a distorted picture largely tainted with *a priori* assumptions. Some scholars, for instance, underpin the monopoly, without explaining it any further, as one of the two prominent “errors” explaining the Ottoman insolvency (Kıray 1993, 153). In a similar vein, the scholarly interest in the Ottoman mentality behind the monopoly conveys the scholars’ assumptions, if not biases. Despite being almost the perfect example of “fiscalism,” Genç (2000, 93–94) names the transformation of salt into a means of increasing revenues as a “paradox,” playing

down the fiscal motive behind the monopoly.¹ Associating the fiscal motive with the increases in both the state's salt revenues and salt prices, he hastens to conclude that the fiscal motive was only a function of "provisionism," upholding the ideal that the Ottoman state would not jeopardize its subjects based on their consumption (Genç 2015). By the same token, Akarlı (1992, 454) denies any agency to the Ottoman finance officials and argues that the government was "dragged into creating monopolies" not because of their economic views but their efforts to attract foreign capital.

Elaborating the transformation of the Ottoman salt administration as a form of "fiscalising consumption," a term borrowed from Kwass (2013, 230–234), this study scrutinizes how the Ottoman government pursued an apt policy to generate higher revenues by creating a new tax out of a price-inelastic commodity, which refers to commodities for which demand barely changes with price fluctuations. The fact that the indirect tax on salt took the form of a state monopoly, revenues of which were collected from Ottoman consumers at the point of purchase, demonstrates the paradigm shift by which the Ottoman government sought the means of taxing consumption at the expense of risking the provisioning of society. It also highlights the agency of the Ottoman financial officials, who adapted their fiscal motives to find a remedy for the treasury in dire straits.

Demonstrating yet another example of a "predatory state," defined by Levi (1988, 3) as states trying to extract as much revenue as they can from the population, the Ottoman government, however, incurred a broad set of costs associated with fiscalized consumption of salt. While inhibiting the prevalence of markets by economic interventions in accordance with the principles of the new institutional economics, state monopolies also hamper economic growth because of high transaction costs, or "the costs of specifying and enforcing the *contracts that underlie exchange*" (Coase 1937; Jensen and Meckling 1976; North 1984). Particularly, state monopolies incur the costs of "maintaining compliance, using agents and other middlemen, punishing the non-compliant, and creating quasi-voluntary compliance" (Levi 1988, 23). Despite the competition in economic analysis of contracts, two approaches, namely the agent–principal model and the transaction cost approach, converge in explaining the dilemma that compliance poses for state monopolies.² In the first approach, it is almost impossible to perfect enforcement, thus compliance, simply because monopoly officials as agents who may cheat or shirk unless perfectly constrained would further that imperfection (North 1984, 9–10). In the second approach, increased coercive effort, i.e. more tax collectors and a more complex administration, raises the opportunity cost of tax evasion only to a certain extent after which further increases would run into decreasing net revenues as a rightward move on an inverted U (Irigoin and Grafe 2013, 201).

Overland transportation, as another transaction cost, holds back governments from fully reaping the benefits associated with monopoly. While the salt trade made extensive use of modern transportation – the reconstruction of road infrastructure and construction of railroads from the mid-nineteenth century onwards – the Ottoman case suffered from geographical and financial obstacles

¹ For his fundamental principles, see Genç (1989).

² For competing approaches in evaluating contracts, see Allen and Lueck (1993, 79) and Coşgel and Miceli (2005, 80).

(Schoenberg 1977, 359; Adshead 1992, 140–141). While roads in the Ottoman realm, as elsewhere, had served mostly administrative and military ends and were “rarely an artery for trade,” maritime trade naturally superseded many forms of overland trade thanks to remarkable reduction in transportation costs (Guldi 2012, 5–6; Özkan 2014, 194). For a monopoly operating on the sale of a vital commodity throughout the Empire, however, roads are essential for providing consumers with an equal opportunity of the physical accessibility to that commodity.³ Consequently, it is evident that the long-term potential of a monopoly failing to destroy the economic importance of distances or introduce an efficient means of transportation would be circumscribed by the insurmountable transaction costs.

Elaborating on the costly Ottoman experiment of fiscalizing consumption, the present study conceptualizes the case of the salt monopoly within the framework of the transformation to a modern fiscal state, which has, until very recently, been investigated primarily from a European perspective (North and Weingast 1989; Schumpeter 1991). Against the stylized facts of the new institutional economics, some scholars have maintained the fundamentals of the Schumpeterian “tax state” while being careful enough to note that the ways to arrive at this point are multiple and varied (Yun-Casalilla and O’Brien 2012). Coffman and Neal (2013), for instance, play down the privileged position of the constitutional framework and highlight the multiplicity of the mechanisms of legitimacy contributing to the establishment of credible commitment. Though Cardoso and Lains’ (2010) definition of the modern fiscal state is more flexible to accommodate the political contingencies in the absence of the representative institutions, their emphasis on coherent programs of both public expenditure and public debt management hinders the prospects of elucidating the Ottoman particularity. No matter how illuminating their definitions of the modern fiscal state may be for explaining European finances, they do not apply to the Ottoman case, in which formal representative institutions, which were not established until 1908, played a limited role in the transformation to a modern fiscal state.⁴

With respect to the limitations of the institutional approaches, the present study opts for a more flexible definition of a modern fiscal state, characterized by He (2013, 2) as “an institutional innovation of using centrally collected indirect taxes to mobilize long-term financial resources from the markets.” Less interested in Eurocentricity and teleology that have marked the studies of the rise of fiscal states, He (2013) mitigates the importance attributed to the parliament in the case of indirect levies. As most of the latter fell on producers and wholesalers, who could easily transfer the increasing burden to ordinary consumers, He (2013) notes that the ruling groups had, thus, no motivation to oppose the government over heavy consumption taxes. Notwithstanding the disinterest in the increased burden on the consumers, the Ottoman bureaucrats endeavored to attain a fine equilibrium between the political temptation of covering the budget deficit in a costless manner and the economic hazard that funneling the demand to clandestine salt brought about. It was this

³ For studies dealing with the Ottoman overland routes in the nineteenth century, see Akarlı (2000) and Riedler (2020).

⁴ For a selection of studies investigating the case of Ottoman finances from a neo-institutional perspective, see Karaman and Pamuk (2010), Pamuk (2012) and Özbek (2018).

dynamic evolution of the salt monopoly that contributed to the Ottoman transition to a modern fiscal state before and after its pre-emption by the OPDA.

The era of free trade

Not different from its contemporaries, the early modern Ottoman salt administration was a genuine public enterprise, relying on the principles of taxation, bureaucracy, and specialization (Adshead 1992, 172). By the *örü* regulation, which stipulated the sale of salt produced in any saltern only within its “designated circle” (*dā’ire-yi maḥsūsa*) and forbade its transfer to any other circle, the administration aimed at the maximization of revenues of each circle.⁵ However, this administration was, at best, monopoly-like as the Ottoman government almost never assumed the costs associated with the extraction and transportation of salt but rather delegated these processes to private enterprises (İlter 1980, 7; Genç 2015, 203). Though a state land (*mīrī*) in theory, the revenues of salterns became a legal fiction and were tax farmed and later became life-long rental contracts (*mālikāne*) (İlter 1980, 9–10; Erin 2003, 224–225).

Despite the survival of the *örü* regulation into the nineteenth century, two developments brought about drastic changes to the Ottoman salt business: the formation of the Anatolian Company (*Anadolu Kumpanyası*) and the Anglo-Turkish Convention of 1838. In the aftermath of the failed experiment of direct tax collection (*muḥaṣṣıllık*), the salt revenues became subject to a particular rental contract (*makṭū’*) (Özbek 2018, 234). It was the Anatolian Company, established by the renowned bankers of the imperial capital led by Yorgo Zarifi, which rented to secondary tax farmers as early as 1842.⁶

The larger problem for both the Anatolian Company and the secondary tax farmers was, however, the foreign merchants who distorted the salt market via free trade principles.⁷ While the convention of 1838 entitled European merchants to freely import salt to the Ottoman realm, the sultan, in defense of the *örü* regulation, stipulated a condition compelling them to sell their imports to tax farmers of the circle at market prices.⁸ Only when the tax farmer refused to buy the merchandise would the merchant be free to sell to the others. Whenever a foreign merchant turned down the secondary tax farmer’s offer, however, the problem of involving the European consulates was imminent.

When Jack Abbott, a British merchant, imported 511,020 *kıyye*, or over 654 tons, of salt to Thessaloniki in the summer of 1843, his refusal to sell the salt to the tax farmer at 8 *para* per *kıyye* led to a meeting in which the local tax farmer, the provincial officials, and the British consul were present.⁹ Considering the costs of laytime, transfer, etc., Abbott declared that he would not even consider selling the salt for no less than 18 *para* per *kıyye*, adding that the time wasted would only increase the price.¹⁰ The case of

⁵ For the term *örü*, see Güçer (1962–1963, 119–120).

⁶ On the Ottoman bankers and Yorgo Zarifi, see, respectively, Jamgoçyan (2017) and Hulkiender (2003).

⁷ On the convention, see Owen (1992).

⁸ BOA. C.İKTS 22/1058, no date.

⁹ BOA. A.MKT 7/53, 19 Cemaziyelahir 1259 [17 June 1843]. One *kuruş* was equal to 40 *para*. One *kıyye* or *okka* was equal to 1.280 grams.

¹⁰ BOA. C.HR 108/5376, 5 Cemaziyelahir 1259 [3 June 1843]; BOA. A.MKT 8/50, 29 Cemaziyelahir 1259 [27 June 1843].

Spiridon, an Ottoman Greek with a British passport purchasing salt from Ayvalık (today a seaside town opposite the island Lesbos) in 1853 with the intention of selling it in either Tekfurdağı or Edirne (towns close to the imperial capital), defied the örü procedures but implicated the British consulate once again. After withholding the shipment, the governor of Tekfurdağı offered to buy the salt on behalf of the state at current prices, i.e. 2.75 *kuruş* per *kiyye*. Rejected, he increased the price to 3.5 *kuruş* in deference to the merchant only to be rejected once again as the latter would not settle at any price lower than 5.5 *kuruş*.¹¹ Having informed the British Consulate of the order to return the shipment back to Ayvalık, the governor justified his decision by noting that Spiridon deliberately violated the örü regulation.¹²

The case of Konstantin Stavrovich, a resident of Edirne with Austrian citizenship, who imported nearly 876 tons of salt from Sicily to the port of İnöz (today Enez, a Turkish town bordering Greece) in 1858 was one of the decisive cases prompting the government to modify the modes of regulation of the ships importing salt to the Ottoman realm.¹³ The negotiation between the merchant and the tax farmers was forced to an impasse when Stavrovich rejected to sell his salt at 12 *para*, a rate the tax farmers raised following “pressure by the consulate.”¹⁴ As the negotiation ensued, during which the tax farmers doubled the market price, the merchant not only turned the tables but also arranged three more ships loaded with salt once he secured a governmental order supporting his claims.¹⁵ When the chances to strike a deal vanished, the tax farmers took action by detaining 8,000 *kiyye* of his salt, *en route* to Edirne by camels. In their petitions, they asked for the enforcement of the örü regulation explicitly stated in their contract and protested to be held responsible for the consequences of the conventions that the government concluded with other states.¹⁶ Conceding that “it was not the tax farmers’ duty to observe the terms of the conventions,” the members of the Supreme Council (*Meclis-i Vâlâ*) ordered the public purchase of the salt imported, its transfer to the tax farmers, and the payment of the compensation by the treasury.¹⁷

The countless disputes between the secondary tax farmers and the foreign merchants, which usually ended up with either the termination of the rent contracts or handsome compensations to the merchants, prompted the Ottoman government to re-regulate the salt market in a radical fashion. Regarding the distress of the treasury in the aftermath of the Crimean War, the Ottoman authorities considered the establishment of a central administration among the projects to increase salt revenues. In a session held in the Supreme Council in 1856, Mehmed Cemaleddin Giridî, a salt merchant, recommended the abolition of the örü regulation and the transfer of all Ottoman salterns to a company to be rented to himself in return for a considerable increase in the revenues.¹⁸ It was in 1857 following the negotiations held

¹¹ BOA. A.MKT.UM 137/78, 5 Ramazan 1269 [12 June 1853].

¹² BOA. A.MKT.UM 140/50, 7 Zilkade 1269 [12 August 1853].

¹³ BOA. İ.MVL 422/18482, 10 Safer 1276 [8 September 1859].

¹⁴ *Ibid.*; BOA. A.MKT.UM 313/49, 18 Ramazan 1274 [2 May 1858].

¹⁵ *Ibid.*

¹⁶ BOA. A.MKT.UM 332/55, 29 Rabiulevvel 1275 [6 November 1858]; BOA. A.MKT.UM 337/49, 6 Cemaziyelevvel 1275 [12 November 1858].

¹⁷ BOA. A.MKT.MVL 111/3, 29 Rabiulevvel 1276 [26 October 1859].

¹⁸ BOA. A.MKT.NZD 178/38, 29 Cemaziyelahir 1272 [7 March 1856].

with the banking houses of Pera such as Camondo and Baltazzi that the company of Yorgo Zarifi took over the entire Ottoman salterns for a ten-year-period in return for paying nearly 101 million kuruş.¹⁹

The establishment of the company, however, did not solve the fundamental question plaguing the Ottoman salt revenues: free trade principles. As a result of the company's increasing claims of loss, the Supreme Council summoned Zarifi in the summer of 1859 only to hear that the salt imported was a grave threat to the viability of the company.²⁰ While the members of the council reiterated that the clause entitling tax farmers to purchase the imported salt at market prices did not necessarily mean that foreign merchants were obliged to sell their salt, Zarifi was more direct, asking for either a guarantee for the sale of imported salt to secondary tax farmers at market prices or the liquidation of the company. Failing to offer measures to convince Zarifi, the members finally agreed on the liquidation of the company.

The liquidation, however, soon paved the way for the question of the "secondary tax farmers." As the secondary tax farmers of the profitable salterns kept their contracts intact, tax farmers of the ones with relatively low prospects considered maintaining their contracts only after exorbitant reductions in the amounts payable to the treasury.²¹ Epitomized by their phrase "offering the good while withholding the bad," the members of the Supreme Council were frustrated with the impossibility of renting the low-profit salterns in 1860 even with the prices of 1856.²² In search for establishing a "regulated" (*mazbūt*) administration of all Ottoman salterns, the government first annulled the contracts pertaining to the profitable ones and then put each saltern on auction for a one- or two-year term, to be effective from 1860 onwards.

The establishment of the monopoly

The ultimate remedy to the distortion in the salt market came with the Ottoman ban on salt import to the "well-protected domains" thanks to the new commercial treaties concluded with most European countries in 1861 and 1862.²³ After the protection of the domestic market, the very fact that most salterns were operated by local governments on behalf of the treasury for almost a year was presumably one of the most prominent motivations for the Ottoman authorities to consider the establishment of a monopoly in 1861.²⁴ Having discussed any possible problems, the

¹⁹ For the charter, see BOA. İ.MVL 420/18387, 8 Zilhicce 1275 [9 July 1859].

²⁰ *Ibid.*

²¹ BOA. İ.MVL 465/21047, 25 Zilkade 1278 [24 May 1862].

²² *Ibid.*

²³ These were the Kanlıca Trade Treaties, which also banned the import of tobacco, gunpowder and ammunition (Kütükoğlu 1992, 94–95).

²⁴ Eleven salterns in the Balkans (including the ones in Gallipoli, Thessaloniki, Ohrid, Berat, Sliven, Ioannina, Vlorë, and the islands of Rhodes, Cyprus, and Kos) and forty salterns in Asia proper, ranging from the ones in Sivas and Siird to those in Tripoli (Beirut, Sidon, Acre, Haifa, etc.) to those in the provinces of Basra, Jeddah, and Yemen, were publicly administered for the year 1861. BOA. A.MKT.UM 454/83, 2 Şaban 1277 [13 February 1861].

Special Council (*Meclis-i Maḥşûs*) decreed that “the Ottoman salterns would be under a state monopoly (*taḥt-ı inzibât ve inḥişâr*)” from March 1862 onwards.²⁵

The establishment of the monopoly was a part of the broader structural reforms that the Empire underwent to improve its credit note, namely the budget reform of 1860/1 and the foundation of a Central Bank in 1863.²⁶ In a period when the government had severe difficulty in securing foreign loans, the salt revenues were a new means of acceptable securities to be pledged. In a hasty attempt to determine the amount, the members of the Special Council estimated the Empire’s population, including the provinces not yet surveyed, as 30 million while presupposing that every individual was to consume 6 *kiyye* of salt a year. Adding the 120 million *kiyye* salt consumption in several industries and taking the lowest rate in the price tariff, i.e. 10 *para* per *kiyye*, they calculated the salt revenues equal to nearly 65 million *kuruş*, i.e. 650,000 Ottoman *lira*. This revenue along with tobacco duty, stamps, and patent tax were the securities pledged for the 1862 loan, which served the withdrawal of the unrequited paper money in circulation (Council of Foreign Bondholders 1872, 8; Eldem 1999, 108–110).

Not merely a means of servicing the debt, the Ottoman officials took initiatives to operate the monopoly as a capitalist enterprise. As early as 1861 the government capitalized on the unsaturated salt market in British India by seeking the means of increasing the exports of the saltern of Suakin (today a Sudanese town on the Red Sea). Allowing a price lower than the domestic tariff, the government instructed the governor of Jeddah to agree on a reasonable rate with the British and French merchants, encouraging them to prefer the Suakin saltern to those in Cape Horn or Aden.²⁷ In another enterprise in 1862, the government investigated the prospects of exploiting the salterns in unclaimed lands (*arâzi-i ğayr-ı mazbûta*) in Ghat (today a southern-westmost town in Libya).²⁸ Though the Supreme Council drafted a report assessing the feasibility of transporting salt to the port of Misrata, the Ministry of Foreign Affairs postponed the project due to the politics entailed with claiming the land in question as Ottoman soil.²⁹

Legislative and institutional changes

Along with the establishment of the salt monopoly, the Ottoman government reorganized the administrations of customs, salt, and tobacco by conjuring the Administration of Excise Taxes (*Rûsûmât Emâneti*) in 1861 as an entity independent from the Ministry of Finance.³⁰ Differentiating the regulation of salt from other minerals for the first time, the Salt Regulation of 1862 set out the structure, function, and operation of the monopoly.³¹ Turning salt production into an exclusively public enterprise, the regulation presupposed the formation of offices

²⁵ BOA. İ.MMS 24/1028, 24 Cemaziyelevvel 1278 [27 November 1861].

²⁶ For the reforms, see Birdal (2010, 25–34). For the *Banque Impériale Ottomane*, see Eldem (1999).

²⁷ BOA. A.MKT.MVL 136/95, 1 Cemaziyelahir 1278 [4 December 1861].

²⁸ BOA. A.MKT.UM 243/78, 20 Rabiulahir 1279 [15 October 1862].

²⁹ *Ibid.*

³⁰ BOA. A.MKT.NZD 390/97, 7 Receb 1278 [8 January 1862]; BOA. A.MKT.NZD 390/98, 7 Receb 1278 [8 January 1862]; Shaw (1975, 445).

³¹ For the regulation on the minerals, see Tızlak (1995, 79–81).

of salt administrations in the vicinity of major production centers to be manned by a director, a head scribe, and a treasurer.³² Not being involved with sales except for the initial one in the offices, the Ottoman government transferred the risks associated with transporting and sale to merchants, evident by the clause determining the minimum sale amount as 50 *kiyye*.³³

The Salt Regulation provided the monopoly with three weapons to be deployed in the war against the black market: confiscation (*zabt*), cash penalty (*cezā-ı nakdi*), and informer reward (*iḥbāriye*). Treating both non-certified domestic salt and domestic salt quantity of which exceeded what was specified in its certificate as smuggling (*sirkat*), Article 18 had the sanctions of confiscation and cash penalty equivalent to twice the value of salt, which is lenient *vis-à-vis* the *ancien régime* in France which sent over 200 salt smugglers to galleys as late as 1783.³⁴ The pressure of the salt merchants, who were bitter about the indiscriminate sanctions, forced the government to amend the article in 1863 by abolishing confiscation and introducing a level of tolerance applicable to salt exceeding the certificate amount.³⁵

The case of the informer reward, however, proved to be more perplexing. Informers were to receive the fifth of the revenues out of the clandestinely imported salt, and the entire load captured in kind as well as half of the cash penalty for notifying non-certificated domestic salt.³⁶ In 1866, the Administration of Excise Taxes was, however, concerned with financing rewards in cases where smugglers who had either fled or failed to pay the cash penalty. To compensate for the cash penalty, the administration drafted a solution prescribing the official handover of half of the salt to informers.³⁷ Claiming that the charge of cash penalty, the absence of which prompted the Administration of Excise Taxes in the very first place, would not be fair and merciful after the sanction of confiscation, the Supreme Council, however, entirely abolished the cash penalty while agreeing on the informer rewards.³⁸ Following the reaction of administration officials who underlined that the low-return rewards would neither stop smugglers nor encourage informers as the revenues made out of selling salt were insignificant, the Sublime Porte restored the cash penalty in 1867.³⁹

The Ottoman government revised the sanctions for confiscation, cash penalty, and informer rewards depending on the financial needs of the treasury. A memorandum dated January 1, 1868 leveled the legal treatment of foreign salt with domestic salt.⁴⁰ An amendment to Article 22 introduced, for the first time, imprisonment, sentencing those who failed to pay the cash penalty to three months in jail, and the Council of State (*Şūrā-ı Devlet*) doubled the sentence for repeat offenders in 1871.⁴¹

³² For the regulation, see “Tuz Nizamnamesi ve Zeyli”, 1279 [1862], 683–708.

³³ *Ibid.*, 689–691.

³⁴ BOA. İ.MVL 495/22418, 5 Cemaziyelevvel 1280 [18 October 1863]; White (2004, 647).

³⁵ “Tuz Nizamnamesi ve Zeyli”, 1279 [1862], 694–696.

³⁶ BOA. İ.MVL 517/23297, 4 Cemaziyelevvel 1281 [5 October 1864].

³⁷ BOA. İ.MVL 558/25069, 8 Rabiulahir 1283 [20 August 1866].

³⁸ *Ibid.*

³⁹ BOA. İ.MVL 569/25571, 18 Zilkade 1283 [24 March 1867]; BOA. A.MKT.MHM 378/6, 24 Zilhicce 1283 [30 March 1867].

⁴⁰ “Tuz Nizamnamesi ve Zeyli”, 1279 [1862], 699.

⁴¹ *Ibid.*; BOA. A.DVN.MKL 10/13, 24 Rabiulahir 1288 [13 July 1871].

While increasing the extent of punitive measures, the Ottoman government further clarified the procedures for informer rewards in 1874, decreasing the reward of salt to one quarter in cases where smugglers had either fled or failed to pay the cash penalty.⁴²

The equilibrium price conundrum

From its early days, the salt monopoly pursued a determined high-price policy, dynamics of which were in almost perfect harmony with the distress that the Ottoman treasury was undergoing. The Ottoman government did not hesitate to distort the market by increasing the price of salt, paying little to no attention to the trade-off between monopoly price and quantity demanded. The unit price of salt, albeit a reliable means of revenue covering the budget deficit, would challenge the monopoly through the competition that the illicit trade entailed.

The tariff that the members of the Special Council considered in 1861 set the prices at 10 para per *kiyye* for salt to be sold at district offices, 15 para for salt to be transported by sea, and 25 para for salt to be sold in distant inlands. This reflected the attempt to increase the tax revenues surpassing the tariff of Zarifi's company in 1859.⁴³ Considering that "moderate price increases" would constitute an indispensable sum for the "recent budget deficit of the treasury," the members necessitated a further increase in the tariff with respective prices at 15, 20, and 30 para.⁴⁴ While the price raises in just two years ranged from nearly 50 to 250 percent, the government increased the price once again in yet another operation to cover the budget deficit in 1864.⁴⁵ Justifying that the increase would not be "at a level to be noticed by people" (*halkın hissedeceği şüretde*), the members of the Special Council, after a recent raise equal to 10 para, agreed on another raise of 10 para, effectively making 1 *kiyye* of salt equal to 40 para, i.e. 1 *kuruş*.⁴⁶

The insistence on keeping the price high, however, debilitated the prospects of monopoly sales with respect to the competition of cheaply imported salt. Noting as early as 1862 that the price of smuggled salt increased from 4–5 to 14 para following the monopoly price, the governor of Thessaloniki warned the imperial government that the failure to halt clandestine sales wasted the salaries paid to the officials.⁴⁷ Though not for the case of smuggling *per se*, the governor of Basra made a similar remark in 1867 as the saltern of Muhammara (today Khorramshahr in Iran), which the locals as well as the merchants exporting salt to the Indian and Yemen coasts preferred thanks to the 12-para price of salt, outcompeted the salterns of Basra.⁴⁸ The governors' recommendation was, however, the same: reduction of the monopoly price to 2 para lower than that of the competitors, which was duly rejected. For the

⁴² BOA. İ.MMS 49/2097, 10 Rabiulahir 1291 [27 May 1874].

⁴³ Zarifi's company was to sell salt at 6 para per *kiyye* in places close to salterns and at most 10 para when transported by ships or beasts of burden. For places distant from salterns, a freight fee equal to the latter price would apply. BOA. İ.MVL 420/18387, 8 Zilhicce 1275 [9 July 1859].

⁴⁴ BOA. İ.MMS 24/1028, 24 Cemaziyelevvel 1278 [27 November 1861].

⁴⁵ The increase reflected a nearly 75 percent increase. See Güran (2003, 58–60).

⁴⁶ BOA. İ.MMS 28/1206, 9 Şevval 1280 [18 March 1864].

⁴⁷ BOA. A.MKT.UM 571/69, 4 Zilhicce 1278 [2 June 1862].

⁴⁸ BOA. A.MKT.MHM 385/56, 19 Safer 1284 [22 June 1867].

sake of maintaining the monopoly price, the government was nonchalant even during natural disasters. After a storm in Gemlik (a town on the coast of the Marmara Sea) in 1864, the governor of Bursa recommended public purchase of salt because of the exorbitant price levels.⁴⁹ Dismissing the recommendation, the Administration of Excise Taxes rather drew attention to the unsold 500,000 kıyye of salt stored in the saltern of İzmid (a town neighboring the imperial capital), instructing the provincial council to encourage sales by means of announcements.

The protests of the Ottoman Greek olive and oil producers from Ayvalık and the islands of Cunda and Lesbos demonstrate the disinterest in the producers. In their petitions, the producers protested the government's decision to charge the monopoly price to dirty salt (*çirkâb milh*), which they used to cure fresh olives in the brining process.⁵⁰ Describing this sudden price increase in just one year as "salt tax," the olive producers in Cunda and Ayvalık were joined by the ones in Lesbos in asking for the restoration of the old tariff, i.e. 60 para per *kile* of salt. Following the investigation, the members of the Supreme Council defied any exception to the olive industry as it would open doors for demands from producers consuming, dirty or not, salt in curing cheese, tanning leather, and feeding livestock. Thanks to a cost analysis, the council trivialized the producers' concerns on competitiveness as the members found that the eventual 7-para increase could be easily transmitted to sale prices.⁵¹

Behind the veneer of economic rationality, however, lurked a deliberate policy of keeping the minimum price intact. The consequent Ottoman disinterest in consumer prices was first and foremost evident by the delegation of salt trade to merchants without a regulating price cap. Due to transportation costs involved, salt prices further increased, particularly in places distant from the seashores. For instance, salt was sold at 70 to 80 para in the regions away from the coast of Crete in 1864, which prompted the Young Ottomans to claim that the rebellion in 1866 partially resulted from the question of the monopoly.⁵² In 1867, 1 kıyye of salt was 60 para in Shkodër (today a town in northern Albania), 90 para in Kozan (a landlocked town in northern Cilicia), and ranged across the Empire from 100 to 120 para in the places furthest from the salterns.⁵³

The chasm between the prices of monopoly salt and of its clandestine substitute posed a grave threat to the sales of the monopoly.⁵⁴ In the immediacy of the decreasing sales, one of the first measures the government took was the introduction of retail sale in 1866, which enabled any individual consumer to purchase salt up to half kıyye at the salterns.⁵⁵ Though this measure limited the consumers' dependence on the salt "profiteers" (*muhtekir*), who were the only agents to purchase the official minimum amount at the offices, i.e. 25 kıyye, it was, at best, crippled, missing the crux of the problem: the consumers who were distant from the salterns and forced to buy the monopoly salt at exorbitant prices.

⁴⁹ BOA. A.MKT.UM 818/48, 26 Cemaziyelahir 1281 [26 November 1864].

⁵⁰ BOA. MVL 789/16, 23 Rabiulahir 1279 [18 October 1862].

⁵¹ BOA. MVL 794/59, 22 Cemaziyelevvel 1281 [23 October 1864].

⁵² BOA. A.MKT.MHM 317/46, 8 Cemaziyelahir 1281 [8 November 1864]; Ziya (1869, 3).

⁵³ BOA. MVL 1043/23, 5 Zilkade 1283 [11 March 1867]; BOA. MVL 1060/91, 7 Zilkade 1283 [13 March 1867]; BOA. A.MKT.MHM 384/68, 11 Safer 1284 [14 June 1867].

⁵⁴ For a similar case, see Barui (1979).

⁵⁵ BOA. I.DH 553/38508, 28 Rabiulahir 1283 [9 September 1866].

Lowering the price

The Council of Ministers (*Encümen-i Maḥşûs-ı Vükelâ*) discussed a more comprehensive revision on the monopoly price in 1867, only with a caveat to be reckoned with. Considering the investigation, the results of which found a person's annual salt consumption equal to 6.5 kıyye, the ministers acknowledged that 6.5 kuruş paid for this consumption was a "moderate and light tax levied on every single person without exception."⁵⁶ Shifting the emphasis from the salt merchants to distance and transportation as the reasons underlying the high prices, the council lowered the monopoly price to 20 para.

Yielding to the consumers' demand, however, was partial as the price reduction only applied to rural consumers.⁵⁷ The consumers in the Ottoman towns and cities would continue paying 40 para as the government reintroduced the 20 para reduction as octroi (*resm-i duḥûliye*), an excise tax levied on articles brought into a district for consumption.⁵⁸ Urban consumers, the government justified, had "no right to complain" as their salt consumption was just for alimentary purposes. Despite the success in keeping the prices intact without further provoking rural producers, the motion implied another risk. A report drafted by the Administration of Excise Taxes in 1868 based on the correspondences with the regional divisions called attention to the salt merchants who were suspected to gradually confine their operations to the villages, thus, encouraging the proclivity for the clandestine salt in urban areas.⁵⁹

Though the Council of the Excise Taxes (*Meclis-i Rûsûmât*) defended the new motion by arguing that such frequent amendments to the legislation on taxation were of ill repute, harming the confidence of the salt merchants and consequently recommended the continuation of the motion at least for a year, that recommendation did not last.⁶⁰ In a report submitted to the Special Council on January 30, 1868, only a few months after the levy, the officials voiced their concerns over the octroi, which severely crippled salt shipments to Ottoman towns.⁶¹ The money-wise disenchantment with the octroi was evident as the Administration of Excise Taxes found the revenues, which had reached 2.5 million kuruş in eight months since its imposition, only "insignificant." As these concerns coincided with the United Principalities' abolition of the salt monopoly, which bore the likelihood of the Moldo-Wallachian salt flooding the Ottoman towns on the Danube, the Special Council totally abolished the octroi on February 9, 1868 with the hope of increasing the monopoly sales while decreasing that of illicit salt.⁶²

Despite the reduction to 20 para, the competition of the illicit salt was still daunting. The correspondence between the administration and the governor of the Mediterranean archipelago in 1869 with respect to the monopoly operations in the Aegean coast and islands was a clear manifestation of how futile lowering the price was.⁶³ Noting that the monopoly price was still higher than that of clandestine

⁵⁶ BOA. A.MKT.MHM 384/68, 11 Safer 1284 [14 June 1867].

⁵⁷ *Ibid.*

⁵⁸ For octroi, see Süme (2016).

⁵⁹ BOA. MVL 552/51, 3 Şevval 1284 [28 January 1868].

⁶⁰ *Ibid.*

⁶¹ BOA. İMMS 35/1450, 14 Şevval 1284 [8 February 1868].

⁶² BOA. A.MKT.MHM 399/66, 21 Şevval 1284 [15 February 1868].

⁶³ BOA. A.MKT.MHM 432/20, 7 Şevval 1285 [21 January 1869]. For the salterns of the province, see Cuienet (1891, 364–365).

salt, the governor resorted to the often-used method of further decreasing the price. The response of the Administration of Excise Taxes brilliantly reflected the price conundrum: Even if the monopoly price had been set at 10 para, it would have been to no avail as it would still be outcompeted by the illicit salt priced at 4 to 5 para in the province.

Building depots

The black market for salt prompted the Ottoman monopoly to start a new project: building depots (*anbār*) in towns and cities. The decree on December 27, 1866 envisaged the construction of depots, in which the salt would be sold at a price only including transportation costs over the monopoly price.⁶⁴ The report that the Administration of Excise Taxes compiled demonstrated the problem of the monopoly from the very beginning: transportation costs. While the regional divisions of Smyrna, Danube, Samsun, Tripoli, and Ioannina did not see any need whatsoever for additional depots, the six divisions out of thirteen, i.e. Konya, Cyprus, Thessaloniki, Bursa, Beirut, and Edirne, reported the futility of the project. The regional reports underlined that the sale of salt at designated places would neither benefit the consumers nor the treasury as the monopoly price including the transportation costs would not outcompete that of the merchants.⁶⁵

What started as a project of building depots in the province of Aydın (today a region encompassing the Aegean coast and western Anatolia) in the summer of 1869 illustrates how complicated, if not futile, it was for the Ottoman monopoly to attain a standardized tariff throughout the Empire. To mitigate the price fluctuations ranging from 35 para in Halicarnassus (today an Aegean town in southwestern Anatolia) to 60 in Tavas (today a town in southwestern Anatolia), the provincial council considered the construction of two depots in Aydın and Saruhan.⁶⁶ The motion, however, was immediately denied by the regional division in Smyrna on the grounds that the expenses stemming from the salaries, lease payments, and transportation costs would result in a monopoly price nearly equal to 55–60 para, higher than the merchants' current tariffs. As an alternative, the division came up with the idea of electing an agent – a merchant or a notable – by the council who would be charged with the duty of supplying the salt from the nearest saltern to fulfil the annual demand of the province. In this arrangement, the agent would purchase and transport the quantity in question to the town center on his account. The reward for the agent was minimal as he would be entitled to impose a profit margin limited to 1 or 2 para per *kiyye*. After delivery, the agent was duly supposed to remit the revenues to the administration officials on a monthly basis.

Reiterating the obvious fact that any benefit that depots offered would be confined to the towns, much to the chagrin of the consumers in villages, the Administration of Excise Taxes was in favor of the suggestion of the regional division, albeit with reservation. The officials were concerned that an agent's obligation to submit his account every month was conducive to complications in the paperwork. Against any

⁶⁴ BOA. MVL 1060/91, 7 Zilkade 1283 [1 March 1868].

⁶⁵ BOA. ŞD 552/3, 17 Zilhicce 1285 [31 March 1869].

⁶⁶ BOA. ŞD 235/33, 4 Zilkade 1286 [5 February 1870].

measures hindering the collection of the revenues, the administration rather recommended that the council should provide the agent with the necessary credit from the local treasury (*māl sandığı*) and be in charge of keeping his accounts in check.⁶⁷ It was the Ministry of Finance that, in turn, denied this recommendation. Finding it a grave alteration to the established procedures, the ministry ruled out any cash transfer from the treasury to third parties, albeit with the bail. The disagreement brought back the project of building depots – only for a blink of an eye. The whole ordeal of depots in Aydın came to nothing as the Council of State imposed a fixed price in the province’s towns and cities, sentencing those who acted otherwise pursuant to Article 263 of the Penal Code.⁶⁸

It was, thus, the interplay between the financial pressure to increase the revenues and the transaction costs the government incurred that determined the trajectory of finding the equilibrium price. Faced with such a challenge, the Administration of Excise Taxes, in an unsteady collaboration with other government institutions, actively sought new means of general as well as region-specific regulations, which ranged from price discounts and building of depots to price caps, to ensure a certain level of revenue for the treasury. Albeit with the operational difficulties, it was these revenues which increasingly drew the attention of the Ottoman creditors, domestic and foreign alike, in a financial conjuncture within which the chances of recollecting debt were otherwise very slim.

In the service of debt

Failing to borrow from the Galata bankers in 1874, the government had to implement drastic measures, such as establishing a financial commission to supervise the budget and further concessions to make the *Banque Impériale Ottomane* (BIO) as “the treasurer and the paymaster of the empire” (Birdal 2010, 36). Before the terms of the agreement were concluded, however, the Ottoman finances had already reached the edge of bankruptcy. On October 6, 1874 the Ottoman government declared the partial default on interest payments of the foreign loans, which was to turn into formal bankruptcy by March 1875 (Blaisdell 1929, 81; Eldem 2005, 440). It was after this default that the indirect contributions, such as the revenues of the salt monopoly which served as the collateral of the 1862 loan, became one of the sound means of servicing the Ottoman debt.

The loan contract that the Ottoman government concluded on December 20, 1878 with the Galata bankers was the harbinger of the end of the Ottoman salt monopoly.⁶⁹ Predicting that the customs revenues pledged for the loan would result in a deficit of nearly 650,000 lira for his two advances in the loan, Yorgo Zarifi offered to take over the salt monopoly. In his scheme, the banker was to appoint agents who, along with the monopoly officials, would ensure the due delivery of the revenues to the local offices. To put it differently, by appointing agents to every single depot of the enterprise, Zarifi proposed to end various forms of corruption as well as to enforce a more efficient surveillance over the import of contraband salt. The government,

⁶⁷ *Ibid.*

⁶⁸ For the article, see *The Ottoman Penal Code* (1888, 118).

⁶⁹ BOA. HR.TO 522/31, 20 September 1879.

Table 1. Annual salt production for the year 1875/6

Name of the district	Number of salterns	Salt extracted (okka)
Aleppo	7	6,727,281
Baghdad†	6	467,816
Beirut‡	6	368,281
Bursa	93	974,200
Chios†	3	759,083
Crete	1	638,186
Cyprus‡	2	7,111,540
Diyarbakir	12	2,769,287
Edirne	3	2,103,179
Erzurum	28	5,293,060
İstanbul	5	820,749
Jeddah	2	10,462
Konya†	9	19,071,928
Preveza†	6	3,439,987
Shkodër	2	1,847,063
Smyrna†	24	68,369,623
Thessaloniki	4	13,486,171
Tripoli*‡	8	17,719,438
Yemen*	14	3,259,007
Yozgad	27	10,358,553
Total		165,594,894

Source: BOA. ŞD 564/42, 24 Zilhicce 1296 [9 November 1879].

*Includes production data for the year 1873/4.

†Includes production data for the year 1874/5.

‡Includes production data for the year 1876/7.

however, denied the proposal, prompting the banker to submit a letter of protest on January 15, 1880 asking for a peaceful settlement for the unremitted sum.⁷⁰

Zarifi's offer was one of the examples by which the creditors increased their grip on the future of the salt monopoly. In accordance with the Commission of Excise Tax Affairs (*Umūr-ı Rüsūmiye Cem'iyeti*), which urged the Ottoman government to welcome development projects by private capital to increase revenues, Elias Garman and Nikola Anastasi, for whom the documents provide no detail, submitted a warning to the government to raise the monopoly price by 40 para on July 8, 1878.⁷¹ Though the Administration of Excise Taxes denied the request, the subsequent investigation

⁷⁰ BOA. HR.TO 466/17, 15 January 1880.

⁷¹ BOA. ŞD 564/42, 24 Zilhicce 1296 [9 November 1879].

conceded that “the benefits of the treasury derived from salt remained low vis-à-vis the foreign countries in which salt was a monopoly.”⁷² What the administration proposed against the problems discussed until then was the establishment of a private salt administration. Though it was initially opposed as it was a mere return to tax farming, the administration as a last resort recommended the formation of a “salt administration company” (*tuz idāresi kumpanyası*) to be run by a tax farmer, provided that the monopoly procedures would be in force and the current revenues as well as the future benefits of the treasury would be ensured.

Though the news that the salt revenues – along with others – had been allocated to the public debt interrupted the verdict, the result was no different. The settlement concluded on November 22, 1879 with the Galata bankers, also known as the Bankers’ Convention, stipulated the establishment of the Administration of the Six Indirect Revenues (*Rūsūm-ı Sitte İdāresi*) (Blaisdell 1929, 85; Clay 2000, 459). A joint operation of the BIO and the Galata bankers, the administration was entitled to administer and collect the revenues from salt and tobacco monopolies, spirit tax, stamp tax as well as the silk tithes of İstanbul and Bursa and the fisheries tax of the greater İstanbul. Not surprisingly, the allocation of the revenues to the local creditors raised grave protests from the European bondholders (Eldem 1994, 184; Birdal 2010, 46). No more an Ottoman institution, the salt monopoly remained a battleground for the clash between local and European creditors for nearly two years. It was with the ill-famed Decree of Muharrem on December 20, 1881 that the European creditors also asserted their claims on the Ottoman indirect revenues, resulting with the establishment of the OPDA (Birdal 2010, 50).

Conclusion

This article has examined the making of the Ottoman salt monopoly in the nineteenth century before its takeover by European imperialism. Starting with the quasi-monopolistic arrangements for collecting salt revenues, the experimentations in the salt market at the heyday of its incorporation into the world economy serve as a reminder that the Ottoman Empire, as a modern fiscal state, sought the means of centralizing tax collection and increasing revenues for its treasury. The investigation of the operations, problems, and perpetual modification of the salt monopoly demonstrates how the Ottoman officials devised novel approaches to changing circumstances in the face of the snowballing financial challenges from the 1860s onwards. Though the transaction costs put a cap on the recoupable revenues and impeded the profitable evolution of the enterprise, the Ottoman salt monopoly, this study contends, established the basis of a centralized indirect tax collection apparatus, which proved to be an essential function in serving the longevity of the Empire even after its insolvency.

The survey of the Ottoman salt monopoly illustrates the extent of the Ottoman policy to generate revenues by creating new kinds of indirect taxes, a subject relatively understudied vis-à-vis those of direct taxes. As this determination succeeded in fiscalizing consumption by turning Ottoman consumers into taxpayers, the latter, however, did not voluntarily assume the burden of servicing the Ottoman

⁷² *Ibid.*

budget deficits and public debt. True, the tax levied on a price-inelastic commodity did bring about neither hostility to the state nor fierce opposition. Yet it was the passive resistance of the Ottoman consumers-cum-taxpayers through illicit trade that set the trajectory of the monopoly operations. The univocal denominator of this trajectory, i.e. the monopoly price, this study demonstrates, was a manifestation of the search for the uneasy equilibrium which would simultaneously accommodate the political contingencies associated with the indirect levies' impact on the Ottoman legitimacy and the financial immediacies necessitating a greater flow of funds into the imperial coffers.

Despite its short life, the Ottoman salt monopoly underscores a neglected episode in Ottoman fiscal modernization. The episode not only fills the gap left by the historiographies on both Western imperialism and Ottoman peripheralization but also demonstrates that the Ottoman salt monopoly was an enterprise beyond being a security pledged for the debt settlements by which European creditors dictated the hegemony of the core over the peripheries. As recounted in this study, the Ottoman government started protecting the salt market, transformed salt into a taxable resource, and decoupled the collection of its revenues from tax farming. Born out of the credit crisis, the Ottoman salt monopoly constituted one of the steps towards the formation of a modern fiscal state. Notwithstanding the immense transaction costs, it was not a case of financial failure. Rather an institutional innovation in search of finding reliable means of directing centrally collected excise taxes to facilitate the access to long-term credits in the markets, the Ottoman salt monopoly occupied an indispensable part in the making of a modern Ottoman fiscal state before the twilight of the OPDA era.

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 A.MKT.UM (Umum Vilayat).
 C.HR (Cevdet, Hariciye).
 C.İKTS (Cevdet, İktisat).
 HR.TO (Tercüme Odası).
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