

THE FOUNDATION OF TURKISH CAPITAL MARKETS: THE PIVOTAL ROLE OF GALATA BANKERS

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ABSTRACT

The foundation and development of Turkish Capital Markets is mainly related to Galata Bankers, especially in the last period of The Ottoman Empire in the 19th century, because mainly foreign minorities carried out the commercial activities in The Ottoman Empire.

The development of capital markets doesn't go back to old times as far as the development of industry. In the last periods of The Ottoman Empire, Galata Bankers played important roles in the foundation of Turkish Capital Markets. In consequence, the owners of financial savings were these minorities. Among these minorities there were mainly Armenians, Greeks and Jews. Because of the place named "Galata" in Istanbul, where these minorities carried out their commercial and financial activities, they built a reputation as "Galata Bankers".

At the beginning of the 16th century the Jews, expatriated from Portugal and Spain, settled down in Ottoman Territory and they began to have a say on trade and financial matters. In the 17th century economic, industrial and commercial activities began to fall into the foreigners hands. At that time, among the Galata Bankers, the Greeks were especially dominant. Greek minorities, with the support of European States, demonstrated their predominance in commercial and economic life with their banker institutions, whose numbers reached to one hundred.

The topic of this research is to discuss the commercial, economic and financial activities of Galata Bankers in The Ottoman Empire and their pioneering activities in the development of Turkish Capital Markets.

Key words: Capital markets, Galata Bankers, Ottoman Empire.

Jel Classification: G21, N20.

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TÜRK SERMAYE PİYASASININ KURULUŞU: GALATA BANKERLERİNİN ÖNEMLİ ROLÜ

ÖZ

Türk Sermaye Piyasasının kuruluşu ve gelişimi, özellikle Osmanlı İmparatorluğu'nun son döneminde, 19. yüzyılda, esas olarak Galata Bankerleri ile ilgilidir. Çünkü Osmanlı İmparatorluğu'ndaki ticari faaliyetler, ağırlıklı olarak yabancı azınlıklar tarafından yürütülmekteydi.

Sermaye piyasalarının gelişimi, sanayinin gelişimi kadar eskilere dayanmamaktadır. Osmanlı İmparatorluğu'nun son dönemlerinde Galata Bankerleri Türk Sermaye Piyasasının kuruluşunda önemli roller oynamışlardır. Sonuç olarak finansal tasarrufların sahipleri bu azınlıklardır. Bu azınlıklar arasında çoğunlukla Ermeniler, Rumlar ve Yahudiler vardı. Bunlar ticari ve mali faaliyetlerini İstanbul'daki "Galata"da yürüttükleri için "Galata Bankerleri" olarak ün yapmışlardır.

16. yüzyılın başlarında Portekiz ve İspanya'dan sürülen Yahudiler, Osmanlı topraklarına yerleşerek ticari ve mali konularda söz sahibi olmaya başladılar. 17. yüzyılda ekonomik, endüstriyel ve ticari faaliyetler yabancıların eline geçmeye başladı. O dönemde Galata Bankerleri arasında özellikle Rumlar hakimdi. Yunan azınlıklar, Avrupalı devletlerin de desteğiyle sayıları yüze ulaşan bankerlik kurumlarıyla ticari ve ekonomik hayattaki hakimiyetlerini ortaya koydular.

Bu araştırmanın konusu Galata Bankerlerinin Osmanlı İmparatorluğu'ndaki ticari, ekonomik ve mali faaliyetlerini ve Türk Sermaye Piyasasının gelişimindeki öncü faaliyetlerini ele almaktır.

Anahtar Kelimeler: Sermaye Piyasaları, Galata Bankerleri, Osmanlı İmparatorluğu

JEL Sınıflandırması: G21, N20.

1. INTRODUCTION

The district "Galata" had a reputation as the centre of mercantile traders and bankers in the Byzantine Period as well. In the years after the conquering of Istanbul by The Ottoman Empire in 1453, the Greek, Venetian and Genovese tradesmen and bankers, who left the city previously, were encouraged to come back to their jobs and they were allowed to establish community organizations and to perform their economic activities as well as their customs and to practice their religious duties. This permission brought about their contributions to the financial resurgence of The Ottoman Empire in the following periods. In the rising time of the Empire, Galata Bankers supported the Ottoman Government in various fields such as collecting the taxes, meeting the deficits of the treasury, from giving short-term debts to issuing metallic currency and its circulation.

During the reign of Sultan Mahmut, Armenians began to come to the forefront. In this period, Armenians intensively rushed into cities for the commercial activities notably money changing. In this period, an Armenian called Kazaz Artin even rose to the directorship of the banknote-printing house. Before these years, bankers and moneychangers were under the

safeguard of the Janissary Army. With the proclamation of the political reforms made in the Ottoman State in 1839, because of the privileges granted to the minorities, Galata Bankers found the opportunity to expand their activities and got the financial matters of the Empire under control.

Foreign trade deficit and devaluation of banknotes, as gold reserve, in the first half of the 19th century caused importation difficulties. In this period, two bankers (French J. Alleon and Italian Teodor Baltazzi), who reached an agreement with the Ottoman Government, both eased importation with credit operations and on the other side won the confidence of Ruler (Khan) Abdülmecid. Moreover, these bankers established a bank called “Istanbul Bank” with the aim of fixing an exchange rate.

The golden period of Galata Bankers began with the first Ottoman external debt in 1854 and ended with the “Muharrem Decree” in 1881. This period is called “Consolidation Period”. In those years, the increase of none-equity securities issued against debts of The Ottoman Empire, paved the way for stock exchange gambling, which is called “hava oyunları” (speculations). Stock Exchange gambling played on the increase and decrease of “consolidated values” was interesting to all Istanbul people, Muslim or non-Muslim. Even, it was seen that participants from the country joined in the speculations through letters and telegraphs or through moneychangers there.

After the 1877-78 Ottoman-Russian War, Europeans, who thought that their receivables were falling into risk, had an agreement imposed upon them by the Ottoman State, known as the “Muharrem Decree”, and which took all state incomes under their own security. According to this agreement, all revenues of Ottoman State were taken under the management of “Düyun-u Umumiyye” (Ottoman Public Debt Administration) and some Galata Bankers left the country because their markets had been removed and some others went on with trade activities themselves.

2. ECONOMIC CONDITION OF THE OTTOMAN EMPIRE IN GENERAL DURING THE 19th CENTURY

The Ottoman economy was mainly based on agriculture. Foreign trade activities were predominantly carried out by non-Muslim minorities. As for industrialization, it is impossible to mention a modern western-like industrialization. In the service sector, which is another important sector, European investors are again in the foreground. It is possible to state the economic and financial condition of the Ottoman Empire as per below:

Because of an agriculture-based economy most of the production and employment was in the agricultural sectors. These sectors were also one of the most important sources of public revenue through the taxes they paid. With the developments of the 19th century, agricultural producers in the coastal areas and areas serviced by railways began venturing into new markets and even exporting. These developments accelerated the economic development of agricultural relationships (Pamuk, 2003: 234-235). Land legislation of 1858 attempted to regulate land ownership. During the same period attempts were made to increase productivity and an increase

in industrial agricultural products such as cotton and tobacco that were supplied to European industries as raw materials was achieved (Kazgan et al, 1999: 245).

Turkish citizens were interested in high ranking administrative and military positions rather than occupations in trading, banking and financing, so commerce in the Ottoman Empire has traditionally been the vocation of non-Muslims. By the 19th century the capitulations issued since the 17th and 18th centuries in the area of foreign trade were causing serious harm to the Ottoman economy (Kazgan et al, 1999: 238). Concessions that these capitulations provided to European merchants gave them a competitive advantage over the Muslim and non-Muslim merchants in the Ottoman Empire. The trade Agreement signed with Britain in this period provided for free trade and these non-Muslim merchants played a mediating role in this trade. Through these merchants agricultural products were exported, and finished and semi-finished industrial goods were imported. Through this trade these merchants prospered and in extension increased their economic and political influence (Pamuk, 2003: 241).

The Ottoman Empire never industrialized in the Western sense. The basic underlying factor preventing industrialization of the Ottoman Empire was inadequacy of capital stock. The underlying factors for this deficiency were the Timar system and its enforcement mechanism and tight regulation of economic activities by the state. Also limitations of technical knowledge and skills contributed. At the same time the concept of contentedness that was an extension of the religious culture, the single most prominent factor shaping the worldview of the Ottomans, prevented over consumption and, as an extension, mass production. The newly forming trades could not successfully fend off foreign competition and withered under pressure (Kazgan et al, 1999: 241-243). Although new state-sponsored corporations and industrial schools were established in the 19th century industrialization of the Ottoman Empire was not achieved (Tunçsiper et al, 2007: 48).

As far as the services sector is concerned during this period we find that foreign capital investment by far makes up the majority of the sector. European investors were concentrated in activities such as railways, seaports, lighthouses, water, natural gas, mining and electricity production and distribution (Tunçsiper et al, 2007: 48).

The groups that the European finance capital was directly related to were non-Muslim citizens of the Ottoman Empire. As a result of the Treaty of Küçük Kaynarca, (July 17, 1774) the governance of The Ottoman Empire over Black Sea trading switched to the Armenian middleman traders who were under the protection of the Russians in 1774, then in 1784 Austria, in 1799 Britain and in 1802 France (Köse, 2001: 229).

At the end of the century, there was not even one Muslim-Turk among the remarkable bankers of Istanbul. Of the forty biggest bankers, twelve of them were Greek, another twelve were Armenian, eight were Jewish and five of them were Levanter. Istanbul money market, which was concerned with capital stock, was also monopolized by minorities. Of the thirty four biggest brokers, eighteen were Greek, six were Jewish and five were Armenian. In the Balkan part of the empire, financial markets were in the dominance of the Greeks (Boztemür, 1998: 386). A serious industrialization movement took place during the 19th century in Europe which brought along new raw material search as well. Even though it was late when compared

to Western countries, The Ottoman Empire tried to make an industrial movement in the years coinciding with the reforms of 1839, but this move was not sufficient enough to transform The Ottoman Empire into an industrial society (Cezar, 1986). Thus she managed to survive thanks to the political, economic and social systems which were perfectly operated from the 13th century to the beginning of the 19th century. The success of these systems relied upon the power of the military in terms of politics; successful implementation of “Timar and Mukataa” in terms of finance and regular management of foundation system in terms of social aspect (Oğlakçı, 2006: 161).

The Ottoman Empire faced never-ending financial problems from the second half of the 17th Century. The collapse of the reforms, initiated in the very beginning of the 18th Century, which were perceived as the first indicators of an alteration and transformation period, made the deficits of the state treasury chronic. Since The Ottoman Empire could not keep up with the military advancements of Europe, wars resulted in defeats. This situation brought additional charges to the treasury and later on emerged as the forerunner of severe financial problems (Çakır, 1999: 362).

Additionally, the Timar system, which began to fail in the beginning of the 17th Century, the price revolution of Europe and mercantilist applications, triggered the breakdown of the Ottoman tax system. While inflation was rapidly rising, a decrease in the tax amounts appeared. The government took some steps in order to meet the tax shortages and rearrange the financial structure. (Beşirli, 2009: 186).

The Industrial Revolution of Europe resulted in rapid development of trading and industry. Serial and cheap production and the wide variety of products revealed the need for institutional organs that could carry out these functions. Within this construction, agriculture and commerce councils, chambers and exchange commodities entered the economic life of Europe in a short time, got organized, and rapidly improved themselves (Beşirli, 2009).

The Ottoman Empire turned into a source of raw material and a bazaar for European Industries in a short time, as the empire could not keep up with the industrial revolution. Countries such as Britain and France who had completed the industrial revolution put the serial and cost-effective goods, produced by machines, onto the Ottoman market easily thanks to the privileges granted by commercial treaties. Ottoman tradesmen who manufactured on handlooms widely suffered and began to fade from the economic scene as a result of noncompetition (Beşirli, 2009).

3. DOMINANCE OF FOREIGNERS IN COMMERCIAL AND ECONOMIC ACTIVITIES

In the Ottoman time, the minorities who were dealing with commerce and ship transportation, brokerage and similar professions notably got rich and they were constantly in connection with the West. Greek families, especially residents of Fener district, where the patriarchate was situated as well, took over some important positions in the government. Beginning from the reign of Fatih the conqueror, Armenian, Jewish and Greek rooted officers ranked as Pasha assigned to the Ottoman Palace.

These minorities, who had great stocks in the Ottoman economy, began to be essential for the palace and treasury in time. Thus they had a major role in the expenditures of the government as well as in the politics. After the autonomy of Greece that formed some parts of the minorities, the Jewish that came to Istanbul had a say in sectors such as money, banking, press, industry and motion pictures.

The wars during the final periods of the Ottoman era, impolicy and extravagance of the palace resulted in debts; the government even borrowed from minority tradesman especially Galata Bankers, and the Ottomans paid a heavy price for this. (Köse, 2001: 229). When it comes to the 1830s, in all the large cities of the Empire, trade was in the hands of the non-Muslim merchants (Boztemur, 1998: 386).

Fatih the Conqueror believed in the need for relationships in economics and politics with Europe after the conquest of Byzantine. In order to make the minorities loyal to himself he negotiated with their representatives and published a decree in which the minorities were allowed to continue their professions the same as before, as long as they obeyed the commands and laws together with paying tax debts. (Köse, 2001: 234).

Assigned to the various ranks of the government since the beginning of Fatih's reign, these people mostly dealt with commercial activities in order to meet the needs of society and as a result had a say in world trade. Especially during the 19th Century, by means of their relationships with European countries and wealth, they became influential in the governance of The Ottoman Empire. (Köse, 2001: 232).

Non-Muslims residing in The Ottoman Empire became effective primarily in domestic trade and later in foreign trade, owing to their relationships with foreign traders, foreign language knowledge, wise use of the privileges granted with the treaties, and commercial knowledge and experiences (Yerasimos, 1980: 325). This case influenced many of the non-Muslims and they carried out their commercial activities under the protection of foreign countries during the 19th Century. In this period many of the non-Muslim tradesmen were under the protection of France, Britain, Russia, and Austria (Oğlakçı, 2006: 45).

Originally Jewish, some Galata residents returned from Thessaloniki and settled in Istanbul after the capture of Thessaloniki by Greece towards the end of the 19th Century and they laid hands on monetary, banking, journalism, filmmaking, industry, trade and politics. They founded Thessaloniki Bank and got organized in other banks as well. Of these minorities

bearing Muslim-Turk names, İpekçiler, Kapaniler, and Tatariler were the famous families who returned to Istanbul (Öztuna, 1994: 253).

During the 1850s there were forty Greek chambers in the capital and they had about 350 members each. These numbers are meaningful in showing the importance of Greek tradesmen in Istanbul in terms of the economy. The commercial and financial opportunities of Galata, which was primarily a trade and residence centre for Europeans in the capital, drew Greeks and Armenians there. (Köse, 2001: 235).

It is stated that the biggest ethnic group, the Greeks, had 4,500 members in their chambers in Galata alone in the 1870s. Besides dealing with all commercial activities, Greeks especially had the upper hand in certain professions. The empire provided many opportunities to Greeks and minorities that were using the new trade conditions wisely. As a result, with the help of European powers and privileges they took advantage of the Muslims (Köse, 2001: 235).

The situation of the minorities living in The Ottoman Empire became better than the Muslims with the new rights granted with reforms, especially with the reform of 1856. The minorities even gradually gained political rights and became powerful thanks to European protection politics (Küçük, 1999: 214). Non-Muslim groups held trade, monetary and law institutions in their hand during the reform period.

4. ECONOMIC, COMMERCIAL AND FINANCIAL ACTIVITIES OF GALATA BANKERS IN THE OTTOMAN EMPIRE

Before discussing the Galata Bankers, giving information about Galata district, its history, socio-cultural and demographic structure may provide a good understanding of Galata Bankers' activities and their place in Ottoman economy. Galata became a trade centre with Europe and headquarters of banking not only in the Ottoman period but also in Byzantine times.

From ancient times at the conquest of Istanbul, owing to commercial relations with Europe, Galata district continued its activities. It had always been a district that changed in terms of not only commercial, but also cultural and social fields (Oğlakçı, 2006: 50).

Galata is an important settlement between Azap Kapı and Galata Tower and meeting place of Bosphorus and Golden Horn (Oğlakçı, 2006: 51). Since Galata had been an important settlement from the ancient times, it was called the 13th administrative district in Ancient Rome. It was also called Sykai or Sykaena in ancient times (Oğlakçı, 2006: 50). Why Galata was called a fig grove was the result of having a lot of fig trees in the district at those times. (Yelkenci, 1989. P. 25).

In terms of being a settlement, Galata stretches far back to ancient times. It has been an important settlement since the 5th Century, during the reign of Constantine in the Byzantine Empire. The Genoese, who began to settle in Constantinople during the reign of 1st Manuel Komnenus, had to give up their place to Venetians with the invasion in 1204. However, Genoese people began to return to the city when Constantinople was regained by the Byzantine Empire. The Byzantine government, however, let the Genoese settle only in the opposite bank

from Constantinople, namely Galata. Thus, Genoese people became the dominant population until the conquest of Istanbul by Fatih (Akın, 2002: 83-84).

Galata harbour became an important trade centre and Galata became a seaport that was visited by more than 500 ships per day. Galata Harbour, under the control of the Genoese people, was the centre of Black Sea and transit trade. Another reason lying behind Galata's being a trade centre was directly related with ship technology of those times. The ships then used to visit Galata harbour for repairs and ship-care as well as finding new crews – activities other than trade alone (Kazgan, 1991:152).

The 19th century economic and finance system of the Ottomans witnessed the strengthening of Galata Bankers. Under the protection of Janissaries previously, bankers were under the supervision of the Government. The Greeks became the representatives of mercantilism in Istanbul when they were leading the way during the 17th century. Besides having wholesale trade in hand, they also founded trade schools like the European ones. The Capitulations of 1740 paved the way for Black Sea, Aegean, Balkans and Adriatic trades. We see that Armenian bankers came to fore during the reign of II. Mahmut (Tabakoğlu, 2009:330-331).

Galata Bankers became more influential due to administrative reforms. They carried out the foreign trade relations of the Empire through Istanbul Bank operating between 1847 and 1852. They played an intervention role in domestic and foreign debts; searched domestic and foreign markets for the value of property that was exported by the Empire; and they loaned money to the government and later founded the Galata Stock Exchange in 1862. This stock exchange was the basis for today's stock market and its operations, and even became a place for European speculators during 1870s (Tabakoğlu, 2009: 331).

The transformation of private institutions such as Istanbul Troller Firm began to be operated in this Stock Exchange together with Government transformations. Istanbul Bank, re-founded in 1872, became strong enough to manage the foreign debts of Greece. During the war of 1877-78 with Russia, Galata Bankers provided loans for the Ottomans. The activity of these bankers and stock continued until the foundation of Düyün-u Umumiye in 1881 (Tabakoğlu, 2009: 331).

Gold selling and money changing were dominant Bankers' occupations which date back to olden times. This money changing and gold selling that the Levantines carried out was performed with usury in banking after the conquest of Istanbul. Big moneychangers had a word in the governance of the empire in time. These bankers and tradesmen, who were experts on monetary issues in all world trade, reaching even America, operating in Ottoman times, carried out their profession from the rise of The Ottoman Empire to the recent past when were lost. Almost all of these bankers were non-Muslims (Seyidoğlu, 1992: 206). Galata attracted a lot of attention as a result of being a trade centre and playing an important role in the management of all financial and economic issues of The Ottoman Empire. Galata Bankers put forward their financial and administrative activities by having some rank and authority (Kazgan, 1995: 28) and from time to time through consulting, and even some of them founded the first joint stock company called Şirket-i Hayriye (Köse, 1999: 49).

The tendency of the foreign residents coming to Ottoman lands and trading with local Greek, Armenian and Jewish traders, resulted in the capture of the domestic trade by minorities. (Tabakoğlu, 1985: 235- 237; Şeker, 2007: 118).

Moneychangers continued their financial activities especially in Galata during the first half of the 19th Century. Together with the Greek, Armenian and Jewish moneychangers, the Levanters coming from Europe, the financial powers of the moneychangers increased. After this period, moneychangers began to be called bankers and they had large capital shares in The Ottoman Empire (Pamuk, 1995:217). The Levant is defined as non-Muslim minorities that deal with trade and densely populated Istanbul and big harbour cities in Ottoman times especially after administrative reforms. (Ana Britannica, 2005: 428).

The word Banker is used for bank owners or bank employees in the West. However, for the Ottomans the word Banker is also used for the people who have great capital, but do not own a bank. All the bankers settled in Galata as a result of its being a trade centre beginning from the Byzantine times. Thus, they have been called Galata Bankers based on the reason that they all deal with monetary issues and gathered in this district (Üsdiken, 2000: 116).

4.1. How They Got Rich

Turkish citizens were interested in high ranking administrative and military positions rather than occupations in trading, banking and financing. Because of coping with the Industrial Revolution and having a closed economy system depending heavily on the artisan class, occupations in the fields of banking, financing and usury were filled mainly by non-Muslim Ottoman citizens (Takan, 2002: 5). During this period, the group called Galata Bankers was known to have close ties to the Ottoman Treasury had gained serious importance. The group of bankers was named after the Galata neighbourhood which had been a trade centre since the Byzantium Empire and was occupied mostly by Greek, Jewish and Armenian citizens of The Ottoman Empire (Üsdiken, 2000: 116).

The Industrial Revolution that started first in Great Britain in the second half of the 18th Century created expansions and improvements in mass production of merchandise throughout Europe, and as a result promoted financing/funding activities (Bayraktar, 2002: 71; Çabuk, 2008: 2120). Expansion into new markets for various products that became very affordable as a result of the Industrial Revolution made non-Muslim citizens of The Ottoman Empire earn high profits and possess enormous capital through their trading activities (Kazgan, 2005: 13).

Galata Bankers also started to deal in the stocks and bonds of publicly held companies founded as a result of the Industrial Revolution and colonial expansion of European countries. Because of loose controls on currency exchanging policies, and Capitulation granted by The Ottoman Empire, Galata Bankers were able to trade securities outside the empire (Karatepe, 2002: 1) and therefore, enabled the first fund flows from European securities markets towards The Ottoman Empire's financial System (Çabuk et al, 2008: 2120).

Galata Bankers were blamed for being imposters, deceitful and loan sharks especially because of their money lending activities with usury. However, it should be noted that they provided great help in overcoming various financial problems faced by The Ottoman Empire

(Kazgan et al, 1999: 361). Indeed interest and other revenues earned through these bankers used to stay in the Empire's financial system; therefore, they brought prosperity to the overall country. Besides, many people were happy and enjoying the benefits of an active and lively Galata securities market as a consequence of increases in imports and consumption of luxury goods and earnings through money lending activities (Çabuk et al, 2008: 2121).

The poverty and financial difficulties along with bribery and embezzlement systems first seen in those times, and lack of competent governors and officials worsened the situation and prevented the development of an effectively working financial system in The Ottoman Empire (Tanör, 1999: 19).

4.2. Important Events of the 19th Century

Important events that affected the economic and financial structure of The Ottoman Empire occurred in this century. The most important of them was the industrial revolution, Balta Harbour Treaty and the declaration of administrative reform.

Industrial Revolution: In the second half of the 18th Century a big industrialization movement took place in Britain. Thanks to this industrial revolution, rope began to be bent and woven; the steam power was used in machines; division of power in factories and production got widespread and these resulted in an increase in mass production rate and the production carried out just for marketing. Increases in production became the source of the change that occurred in Europe. This industrial movement occurred in Britain and in a short time spread out to France and Germany as well as other Western European countries. The deposit of capital accelerated, so commercial capitalism left its place to industrial capitalism (Dikmen, 2005: 141-142). Thus, cheap and adequate production in Europe changed the balance of world trade. In order to solve the market problem that occurred as a result of production increase, European countries searched for new markets for their products. Thus, European countries had a chance to use increasing production rate and money in The Ottoman Empire. The Ottoman Empire was in need of cash and Europe met its needs and they formed a new debt loan and borrowing period (Gürsoy, 1984: 26-27).

While the West was living these changes, the Ottomans did not show any industrialization movement and became a market for other European Countries. The Ottoman Empire could not protect its domestic products from cheap European products in the Ottoman market. (Dikmen, 2005:p.142).

Balta Harbour Commerce Treaty: The Ottoman Empire signed a treaty with Britain in 1838 (Açba, 1995: 21). With this treaty, the right of the Ottomans to assign any good to anyone to use especially in the foreign trade that was carried out before 1838 was abolished. In this way the transport of Ottoman raw materials to foreigners got easier (Pamuk, 2005: 205-206). This treaty increased the rate of export taxes to 12% while import taxes were 5%. While local tradesmen were paying domestic duty tax, foreign tradesmen were excused from this tax (Akgündüz and Öztürk, 1999: 490).

The treaties signed with many foreign countries beginning from 1838 to 1846, turned the Ottoman economy into an open market. Being almost a headquarters for foreign traders, all

the trade activities were carried out by foreigners on Ottoman land. Because of these treaties the government lost income, raw materials were transported to foreigners in a cheap way, and underdeveloped industry got affected in a negativeway (Açba, 1995: 27).

The declaration of Administrative Reforms and Innovations in the Ottoman Treasury: The Ottoman Empire entered into a new period with the declaration of administrative reforms. In this new period alot of reforms were made in law, politics and economic fields (Çakır, 2001:10). The Ottoman Empire had made a lot of reforms in the field of finance with the declaration of reforms. The Central Authority determined three main targets for these reforms. The first was bringingnew direct income taxation instead of the old tax system that disregards paying power. The second one was making everyone taxpayers. The third target was founding a systematic finance structure in the OttomanEmpire (Oğlakçı, 2006: 28). In order to fulfil these targets, alterations were carried out in the treasury and tax system and the budget of the government.

Owing to the reforms carried out, the Ottoman Treasury became stabilized in a short term. However, with the Crimean War of 1854, theOttoman Treasury received a blow. In this period expenditures were double the incomes (Oğlakçı, 2006: 33). The budget deficits dragged the government into the process of seeking foreign loans. With the beginning of this process The Ottoman Empire signed a lot of loan treaties. This process beginning in 1854 resulted with the bankruptcy of the Ottoman Treasury in 1875. European capital owners foundedthe Düyün-u Umumiye in order to take their money back after the bankruptcy. This institution took 2/5 of the Ottoman incomes and theycollected back their money (Oğlakçı, 2006: 33).

After the declaration of Administrative Reforms, the beginning of instability of income and expense led to domestic and foreign loans. After this period the source of domestic loans became Galata Bankers and the source of foreign loans became European countries. The Ottoman Empire continually tried to sustain the Treasury with domesticand foreign loans after the Administrative Reforms. However, leaving aside the returns of the sources dragged the government into bankruptcy (Oğlakçı, 2006: 33).

The decree issued in 1839 identified and guaranteed many new rights for all Ottoman citizens, especially the non-Muslims. The Tanzimat economy was a “Transition from classical Ottoman economic structureto a contemporary economic structure, a dissolving of stationary, internally focused, provisionist, fiscalist structure and the birth of a dynamic, open, monetary structure that was sensitive to market forces” (Kazgan et al, 1999: 239). The Tanzimat guaranteed the accumulation of large wealth that was prevented in the classical period through the Timar system and forfeitures. The views and concepts reflected in this decree were based on liberal economic thought and the desire to developan administration model based on this thought (Ortaylı, 1987: 239). Considering the economic policies of The Ottoman Empire in light of this transformation taking place in the 19th century we find that:

From a fiscal policy perspective: taxes, which make up the mostimportant source of State revenue was increased in response to the requirement for increased revenue. This, on the other hand, had the effect of further upsetting the state of agricultural producers who were most addressed by these taxes. As far as government spending was concerned we find that despite

decreasing incomes these expenditures were constantly increasing. Financing of long drawn out wars and luxury consumption resulting from increased trade with the West were the main factors increasing government spending.

From a monetary policy perspective: The Ottoman economy was not an interest-based economy; therefore interest rates could not be used as a policy tool. Other factors also limited the money supply. Discounting a very short period when it was issued, the treasury had no opportunity or authority to use fiat money. Because of this, the Ottoman treasury had to resort to borrowing. Also at this time there was no national financial institution to intermediate this borrowing.

As a result any examination of the Galata Bankers in the 19th century The Ottoman Empire has to take into consideration the financial institutions and their activities, the dilemma faced by the fiscal authority, the rise and fall of Galata Bankers, paper currency issue, development of banking, foreign debt, development of foreign capital investments and the first step toward developing a securities Exchange in the Ottoman Empire. All these developments needed to be addressed in a framework that takes into consideration the financial inadequacies faced by the Ottoman State during the 19th century and the solution developed by the western powers; in other words the Ottoman financial system of the 19th century has to be evaluated as one of the most important dimensions of the interdependence of the Ottoman State and the West (Kazgan et al, 1999: 251).

5. THE ROLE OF GALATA BANKERS IN THE DEVELOPMENT OF TURKISH CAPITAL MARKETS AND IN THE SECURITIES EXCHANGE

It is generally understood from the concept “market” on which sellers and buyers or their representatives come together to sell or buy goods, securities or such like fungible goods or other things that have similar values, and which are set up for a length of time, at some point, operate with definite rules and organized central markets (Beşirli, 2009: 188- 189).

The foundation and development of the securities exchange in The Ottoman Empire became a reality through the commercial activities of minorities which were active in “Galata” district. The Greek, Armenian and Jewish tradesmen in the Ottoman State determined the direction of money transactions by making brokerages in Galata, İstanbul (Beşirli, 2009: 190).

Long before an organized exchange activity started in the Ottoman Period foreign securities and following that the transactions between savers and speculators on stocks and bonds standing for Ottoman debts were mediated by moneychangers and bankers.

Among them were bankers who were later known as Galata Bankers; they dealt with commodity trade, agency business and later collecting taxes of the state and they had a lot of experience, they operated the securities trade without any legal regulation and without considering traditional codes of practice, such as commodity trade, and with a wide freedom as well. By doing this they benefited from privileges given to foreigners and minorities and in the process of time, through their personal banking relations, they penetrated the Ottoman Palace

and high state officials which they were financing and so they overcame the handicaps and prohibitions encountered in bonds and money trade easily. Since the influential bankers couldn't play their mediating role in a way so as to gain the trust of account owners in the process of free trade activities which constitute the first period of Ottoman securities markets, they didn't create any opportunity to become established in any professional custom (Fertekligil, 2000: 35-36). However, realising the dangers of reactions caused by their selfish behaviour, they began to get organized, to prepare regulations, and to establish a union in need of cooperation, and paved the way for establishing a securities exchange in Turkey (Fertekligil, 2000: 36).

Reaching to a level of establishing a security exchange of financial developments in The Ottoman Empire in Galata-İstanbul can be considered to be the result of fast developments of exchange markets in Europe indeed.

On the one hand, the circulation of securities issued by Western public companies in İstanbul and other provinces of the Ottoman State by minorities, buying and selling later by bankers; on the other hand entering into the process of trading in leading Western security markets of securities issued in consequence of borrowings beginning from the Crimean War in 1854, with some other stimulations and sub-factors, brought the idea of establishing a security exchange in the Ottoman State (Fertekligil, 2000: 1).

The first stock exchange activity in Europe started in the 14th century with a decree of the King of France on a Paris bridge (Pont – au – change). The transactions in the 16th century intensified in commercial papers and the intermediaries have been called “agents de change” (Fertekligil, 2000: 2). The first settled stock exchange in a specified building opened in Anvers. The London “Royal Exchange” operating in the 16th century in Britain, was renamed “Stock Exchange” in the 18th century. Stock exchanges were established at the end of the 17th century in Berlin, Bale; in the mid 18th century Vienna; in 1792 New York; in the 19th century Brussels, Milano, Rome, Madrid and Tokyo (1878) (Fertekligil, 2000: 2).

While various European countries founded stock exchanges, it was a big deficiency for the Ottoman Empire since it had no such institution in the market. At the times in which market activities were not sufficient, the bankers took over their role and carried out every finance and intervention role. Thus, the Ottoman Empire was left behind the industrial revolution; nevertheless, it was affected by different points as a result of the bourgeois economy system (Fertekligil, 2000:20).

One of the most important factors, which caused the establishment of stock exchanges in the Ottoman State, was the fast development in Western stock exchanges. The fast developing trade in Europe, after the industrial revolution, brought incorporation along. Let alone the circulation and trading of the securities issued by public companies established one after another in central and important cities of the Empire by moneychangers, quotation of the foreign borrowing bonds in leading European securities exchanges after the Crimean War, triggered the establishment of the Securities Exchange in the Ottoman State (Köse, 2001: 236).

Transactions having the characteristics of securities appeared after the reforms in 1839. Galata Bankers increased their impact in this period and they conducted the foreign trade

dealings in cooperation with İstanbul Bank which operated between 1847-1852. They intermediated in domestic and foreign borrowing, searched for markets for the securities issued by Ottomans, found credits for the state and later they established Galata Stocks Exchange (1862). This market was the field of securities transactions and stocks exchange gambling and even a place in which European stockbrokers were active (Tabakoğlu, 2009: 331). After the Crimean War, the terms and conditions necessary for founding a securities exchange market became rather easy to meet. After The Ottoman Empire started to issue treasury bonds and notes, a market for exchanging these securities evolved eventually. The dominant factor governing this securities exchange market was Galata bankers. They were the ones realizing the necessity of a formal securities exchange market and therefore, pioneered one through their union formed in 1864 (Çondur and Evlimoğlu, 2007). Thus, they initiated the formation of a formal securities exchange market in Havyar Han in Galata in 1864. In 1865, they prepared their first constitution and got recognition as a formal union (Kazgan, 2005: 27), which indeed increased the importance of Galata bankers in Ottoman financial systems.

Galata Bankers operated at first in Havyar Han and later in Komisyon Han (Konsolid Han). That is to say, Galata Stocks Exchange Market was organized as a trade guild called by Greek Bankers “Sefurya” in İstanbul and started to be managed and operated according to this regulation (Köse, 1999). The first securities exchange market called “Dersaadet Tahvilat Borsası” in İstanbul, and similar to the French securities market system, opened by government order in 1866. A commissar called Abidin Bey (later Pasha) was appointed to the management of this market and he formed a management committee of 20. The regulation, which was prepared and accepted unanimously by market subscribers, many of whom were Greek, determined market transactions and many basics related to the persons carrying out these transactions (Köse, 1999).

There are a number of different views on the official establishment date of the Stock Exchange. Since there was not concrete knowledge about assigning a stock officer by the government as a result of the decree known to be published on the 13th of April, 1866, it is better to admit that the Stock Exchange was established, in fact, in 1866. Later it was transformed to a public enterprise and was taken under the supervision of an officer assigned by the government in 1873 (Fertekliçil, 2000).

The industrial revolution that occurred in Europe in the 19th Century accelerated the foundation and development of joint-stock companies. Although Turkey had no news about this revolution, the minorities holding to Europe in terms of life style, an elite group of Muslim-Turks who formed under the influence of Western culture and the Levant, were interested in stocks and shares and formed the market owing to the intervention with Galata Bankers. There were no firms that could export share and exchange bills at those times in Turkey. The market and the stock exchange were made up of the exported stocks and shares of the foreign firms. This occurred since the bankers and businessmen who had one foot abroad, as well as with the help of newly built telegraph lines and convertible golden currency of Turkish Money (Karlı, 2005: 160). Upon the issuance of treasury bonds and notes by Ottoman officials, a secondary securities exchange market started to operate rather efficiently. Purchases and sales of these treasury certificates and rumours about them spread by Galata bankers created such a speculative

environment that officials decided to close that secondary securities exchange market. However, Galata bankers constituted an important pressure group on the Ottoman financial system (Kazgan et al, 1999: 370).

6. STOCK GAMBLING

The complaints of the public rose when an increase in the number of the stock papers occurred after the foundation of Şirket-i Hayriye, trolley, telegraph and telephone institutions together with some other mining and marketing firms, in addition to sequential bills of foreign loans of the Empire. Thus, the government searched for a solution, with a legal regulation, with the aim of taking the Galata Stock Exchange and its agents' behaviours and aims under control. Stocks made its way even in rural areas when it comes to the 1870s. Moneychangers and stockbrokers with their shareholders and representatives dragged local people and farmers into stock gambling. Local moneychangers enabled stock papers, as an alternative investment field, to be used for the funds in agriculture, which resulted in high interest debts for farmers. This situation was followed by bankruptcy on many farms, mortgage by moneychangers and as a result the fields were left without crops. The legislation of Galata Stock Exchange arose from the desire to prevent interest rates and money from value increases, and to stop brokers who were cheating the public (Köse, 2001: 237-238).

The Galata bankers acted in a very organized manner to attract citizens and helped them get used to dealing and exchange securities. They aimed at both groups, that is, ordinary citizens as well as people from Ottoman palaces. People got used to trading in Galata Exchange Market more than even expected by the bankers themselves. However, risk-oriented investors were not the main reason for high mobility in the Galata Securities Exchange market; being seen from time to time helping Ottoman bureaucrats to conceal and sometimes legitimize bribes they accepted was. Bribery was strictly forbidden and would be severely punished (Kazgan, 2005: 62). Galata bankers were able to earn speculative profits upon the issuance of banknotes since they got people involved in securities trading and ran the securities exchange market for every kind of financial instrument (Çabuk, 2008: 2124).

The Stock Exchange, with legislation confirmed in 1873-1974, founded with the name "Dersaadet Tahvilat Borsası" was later added to the Ministry of Finance. With this regulation the Galata Stock Exchange was kept under control. Especially, consolidated and made up games made the control of government on the stock inevitable since many people were being swindled (Beşirli, 2009: 191). In fact, the related law draft for the foundation of stocks was prepared in 1862 and sent to foreign agencies. However, it was asserted that the Galata Bankers, who were disturbed by government control since it could have made them unsettled, used their lobbying powers on high state officials and prevented the regulation from being put into effect for a decade (Fertekligil, 2000).

Known as the first Stock Legislation, "Dersaadet Tahvilat Borsası Legislation" may be belated; however, it is out of the question that the Galata Bankers had formal benefits in shaping the stock. With the development of stock activities, bankers would be more prestigious

and profitable thanks to rising work capacity and they would be able to spread the risk of loaning state agencies (Fertekliġil, 2000: 26). Thus, they helped the legislation of the Stocks Code.

Domestic disturbances annoying the government, never ending financial nuisances and accompanied dramatic precautions, which came to the fore as delayed funds and repaying of interests, prevented the government from taking new precautions. In brief, although some regulations were made on the order and operation of this institution, Galata Stock Exchange assured its quality of being the most speculative market of funds in Europe. (Fertekliġil, 2000: 29). The name of this Stock Exchange, with a regulation accepted in 1906 changed into "Esham and Tahvilat Stock Exchange" and continued until the Republic period. With a new regulation accepted in 1922, the conditions of the stock exchange reached its present situation. The existing stocks were regulated in accordance with Regulation No. 8172, and Stocks and Shares and Foreign Exchange Stocks Law No.1447 in 1929, and began to operate under the name of Istanbul Stock Exchange (Çondur and Evlimoġlu, 2007: 1-17).

7. CONCLUSIONS

In the financial history of The Ottoman Empire there is indisputable importance of the Galata Bankers. The post-industrial revolution developments in Europe increased the need to finance the Ottomans. Because of deterioration in financial structure of the State, the Galata Bankers gave many time credits to meet the financial needs of the State.

Galata Bankers dealing with commercial affairs for a long time have been specialized in trading and accumulated a large amount of money. The foundations of a needed securities exchange was laid by the Galata Bankers at that time and the first securities exchange was established to meet the financial needs of industry. No doubt, there were some wrong things that were done by the Galata Bankers. For example, speculation on the securities exchange, to entrap careless and inexperienced people to win money and causing them to lose their money, are some of them. However, especially in the 19th century, with their role played to meet the financial needs of the Ottoman State, by the first establishment of equity securities and bonds, the Galata Bankers laid the foundations of capital markets; and so the effect of their activities in Ottoman financial history is indisputably clear.

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