

**PRELIMINARY DRAFT**

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*Credit and Early Banking Practices in the Ottoman Empire:  
The Bank of Smyrna (1842-1843)*

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## I The Money Market of Izmir

One of the most prominent features of the Ottoman economy in the early decades of the 19<sup>th</sup> century was endemic monetary scarcity which took place alongside considerable growth. Izmir was no exception as it concerned either. Although its economy registered growth which was particularly evident in its commercial sector as well as an annual surplus in its trade with the West for most of the early 19<sup>th</sup>, yet there was chronic monetary scarcity in its market, too, which could at times become quite acute.<sup>1</sup> Since more money was coming in through trade transactions than going out, in years when there was export surplus in particular, as well as through an active trade with other regional markets in the empire that left profits in the hands of the city's entrepreneurs, who often controlled the relevant commercial networks, it would appear that money (either in specie or in paper) was not staying in Izmir in the early decades of the 19<sup>th</sup> century any more than it had done in the 18<sup>th</sup> century when there was in fact a stronger overall pattern of annual trade surpluses. Besides trading in commodities Izmir --which was the premier port of the Ottoman Empire, surpassing even Istanbul in the export trade-- had in addition an active trade in both specie and commercial paper for purposes of arbitrage. Its currency and credit markets were surpassed only by Istanbul in volume, scope and range of activity within the empire's provincial centers.<sup>2</sup> It also used both instruments of payment for commercial purposes, acting as a clearing house for payments for transactions made in its hinterland that incorporated large areas of western Anatolia and the Aegean islands.<sup>3</sup>

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<sup>1</sup> E.g., Mübahat Küçüköğlü, *Osmanlı-İngiliz İktisadi Münasabeteleri*, II, 1838-1850 (1976), *passim* ; R. Kasaba, *The Ottoman Empire and the World Economy* (1989), pp. 120-1 and E. Frangakis-Syrett, *The Commerce of Smyrna in the Eighteenth Century, 1700-1820* (1992), pp. 256-60.

<sup>2</sup> E. Frangakis-Syrett, *Trade and Money* (2006), pp. 69-70, 78-83.

<sup>3</sup> "Besides the trade carried on in Smyrna itself, almost all the trade along the coast of Asia Minor, from the Dardanelles to the south as far as Tarsus, the islands of Mytilene, Chios and Rhodes included, is conducted for account of Smyrna houses by whom the funds are furnished". J. L. Farley, *The Resources of Turkey* (1862), p. 97.

In part as a result of Izmir's economic functions and partly as a result of Ottoman monetary policy, specie and/or paper were regularly diffused for a whole host of economic and at times political reasons from its market to other urban markets in the empire and primarily to Istanbul. Yet, specie scarcity could be potentially an even greater impediment for Izmir than for other provincial Ottoman markets given its role as a regional banking center at a time of economic growth. Inadequacy of its circulating medium may at times have been due not so much to an absolute decrease in its volume –although this could be the case too—but rather to an inelasticity for growth, since there was no institutionalized formal banking sector yet established in the empire and a slow rate of capital accumulation as well as persistence, even if intermittent, of hoarding. In other words, growing demand for specie (liquid cash) and/or paper (credit) could be potentially overtaking available monetary resources as well as placing strain on local market liquidity.<sup>4</sup>

#### **Intra-Izmir Monetary Flows, I**

Annual and/or seasonal fluctuations in the flow and volume of money in the local market was also based on the dynamics between specie and paper, themselves part of the trade cycles of Izmir, for the latter influenced the degree and nature of monetary scarcity as well as impacted the exchange rates of the local currency vis-à-vis international currencies in the city's market. For instance, there were specific periods in the year when specie scarcity became more acute, as for instance, during the latter part of the import season, namely, in the months of March through June, whilst the need for paper on Europe, through a short-term credit instrument such as the bill of exchange, was also strong. At such a time, importers “[took] paper on England or France to be paid for at 30 or 40 days, with interest usually reckoned on the exchange at 1% - 1 ½% per

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<sup>4</sup> Ş. Pamuk, *A Monetary History of the Ottoman Empire* (2004 ed.), pp. 159-71.

month”.<sup>5</sup> This was the time when exports were at low ebb and thus the importers’ need for specie with which to purchase bills of exchange in order to remit funds to Europe to pay for purchases was at its greatest. Such conditions in the market affected not only the specie/paper dynamics but also the market values of the Ottoman currency vis-à-vis other currencies in the city’s market. It is worthwhile noting here that the interest rates, which were high, for such short-term credit were embedded in the exchange rates. Indeed for a number of reasons, including the open nature of the Ottoman monetary system and wide circulation of foreign currencies, exchange rates reflected states of the market in a number of ways; in the process they had become an important linchpin in the functioning of the city’s economy. Demand for bills of exchange which was at its greatest in the first six months of the year coincided with the import trade season overall and usually resulted in a corresponding rise “in the exchanges”, namely in the loss of value of the Ottoman currency vis-à-vis foreign ones. For besides the needs of the import trade, this was also the time that the ‘country merchants’, that is the exporters, required specie to send to the interior for the purchase of produce, most likely in advance, and were willing to borrow funds even at high interest rates.

Conversely, when Ottoman products started to reach the market for export in the month of July on, commercial paper was more abundant, as westerners were sending funds to Izmir for their agents or their associates to buy goods for them; consequently there was greater demand for Ottoman specie too, and exchange rates were at their lowest; they remained on the low side, thus increasing the value of the Ottoman currency as late as the month of November, when they began to rise again as the export season was over its peak time. Within the course of a year the export season got under way in July with the export of cereals; it peaked out in the next three months (August to October) with cotton, dried fruit, sesame seeds, opium, tobacco, cereals, as practically all of the main exports of the region, except for valonea and olive oil, were exported

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<sup>5</sup> Farley, *The Resources of Turkey*, p. 98.

during those three months. Some of these goods such as raisins, cotton and tobacco continued to be exported in November whilst valonea came to the market that month. In the following two months exports continued but at a moderate rate with the exception of olive oil which entered the market in January and continued to be exported in February and March. The import season, which took off in March, did so after the profits from the exports had been realized, although there was a further period of brisk activity at the end of the year that coincided with the January holidays. The peak period in a merchant banker's operations, as opposed to a merchant, was from August to October; it decreased incrementally thereafter until January after which time there was 'a dead season' which lasted until June.<sup>6</sup> For a merchant banker it made sense to sell drafts in the first half of the year and to buy drafts for remittances in the second half of the year, in order to ensure "a regular and constant profit"<sup>7</sup> and the most advantageous rates of exchange. It was obviously not so easy to follow this advice given the fluctuations in the currency markets, in the volume of the circulation medium and in other specific conjectures affecting a market all of which even an experienced merchant cum merchant banker could not be expected to foresee.

### **Intra-İzmir Monetary Flows, II: c.1842**

Scarcity both in money and commercial paper in the market of Izmir, leading to a serious 'credit crunch' became especially prominent in the 1840s and again in the 1860s (although it *very likely* occurred both before and after these dates), as evidenced from the extensive circulation of *takas* or *havale*, as the credit instruments were called, which had become rife at that particular period in time. In the 1840s, these started as acknowledgements given by the debtor to the creditor, sometimes payable at a fixed date, sometimes with no specific maturity date with the debtor paying instead a portion every Saturday. They circulated initially within

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<sup>6</sup> Th. Veremis & K. Kostis, *Η Εθνική Τράπεζα στη Μικρά Ασία (1919-1922)* [*The National Bank of Greece in Asia Minor (1919-1922)*], (1984), pp. 153, 156.

<sup>7</sup> Farley, *The Resources of Turkey*, pp. 96-8.

some of the city's markets<sup>8</sup> and subsequently they started circulating in the import trade sector in the bazar being given by the retail dealers to importers to effect purchases.<sup>9</sup> These *takas* were rarely discounted by a banker although they started passing, endorsed, from hand to hand in the city, at first amongst the monetary networks of Armenian and Jewish merchants and subsequently amongst all Ottoman entrepreneurs; moreover they were increasingly being accepted in lieu of specie.<sup>10</sup> A set of circumstances which may have contributed to the appearance of *takas*, caused an acute scarcity in *beşliks*, the preferred medium in monetary exchanges at the time, due to erstwhile relative abundance as well as acceptance by the markets in Izmir.<sup>11</sup> These circumstances related to the transfer of tax revenue to the capital from the city-port that involved sending bills of exchange rather than specie to Istanbul and which was possible given the extensive commercial links between the two cities. Privileging paper to specie meant that *beşliks* remained in Izmir's markets, which was probably another reason for their popularity at the time.<sup>12</sup>

It is not clear unfortunately how long such a system had been in use and whether it was only since changes in the tax farming system had been made following the proclamation of the Reforms of Gülhane in 1839 which called for the collection and transfer of tax revenue from the provinces directly to the capital through government officials. Yet it should also be noted that such changes could only be partial for a certain amount of tax farming of the region's revenues

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<sup>8</sup> By this I mean the business sector of the city that dealt *primarily* with the interior; this must be understood in relative terms as there was also overlap and inter-connectivity within all of the city's economy.

<sup>9</sup> Whilst the former were almost invariably Ottomans the latter group could be either Ottomans or westerners.

<sup>10</sup> Farley, *The Resources of Turkey*, pp. 80-89.

<sup>11</sup> The National Archives: UK/ Public Records Office, FO 195/241, de Cramer, 2nd Memorandum, Izmir, 24 Aug. 1843. Le *beşlik* (pièce des piastres 5) avait toujours constitué au bazaar et au quartier franc *la monnaie courante*; toutes les transactions avaient lieu en cette monnaie parce que le *beşlik* était abondant et satisfesait aux besoins du commerce." Thereafter these archives will be cited as PRO.

<sup>12</sup> FO 195/241, de Cramer, 2nd Memorandum, Izmir, 24 Aug. 1843.

continued to be carried out till the 1850s.<sup>13</sup> In this case, an Ottoman Greek banking house operating both in Izmir and in the capital responsible at the time for the dispatch of the region's tax revenue to the Treasury started sending specie rather than paper, probably because the Government instructed the firm to do so. This impacted adversely the capital liquidity of Izmir's money market and the commercial sector must have also felt the impact. According to an evidently biased report, by an Izmir-based European merchant banker,<sup>14</sup> the banking house in question stood to gain even more than the Treasury for the specie made its way in the branch of the same house in Istanbul and was used to buy government paper (bonds), *sehins*, at a discount.<sup>15</sup> The inference is probably to Baltazzi Brothers of Istanbul closely associated at the time with the ottoman government's efforts to ameliorate its monetary and fiscal situation.<sup>16</sup> Indeed the year 1842 saw the establishment of two companies of *saraffs* under the names of the Anatolian and Rumelian Companies (*Anadolu ve Rumeli Kumpanyalari*) in order to collect taxes on behalf of the Treasury and transfer them to the capital through bills of exchange.<sup>17</sup> This was similar to the operation in Izmir. It would further suggest that, irrespective of a desire or otherwise of the Ottoman banking house in question (or even of the Treasury) to leave *beşliks* (five piastres/*guruş* silver coins) in Izmir, as the Europeans claimed, sending the funds through bills of exchange was at that point in time the standard way to send the taxes to the Treasury.

Another reason that may have led to the reversal in the medium of tax revenue transfer was that the Ottoman Greek banking house was at the time also acting as agents of the Ottoman

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<sup>13</sup> For a discussion of the 1838 Trade Convention and its impact on Ottoman trade see collection of articles in the special issue on the Convention of *New Perspectives on Turkey*, No 7 (1992).

<sup>14</sup> The banking house in question was seen by the founders of the Bank of Smyrna, and by the British Consul, as an enemy to the Bank of Smyrna, who had instigated the opposition of the Porte to the bank; whilst this may have been true, it makes any impartiality on the part of the British to be seriously doubted.

<sup>15</sup> FO 195/241, de Cramer, 2<sup>nd</sup> Memorandum, Izmir, 24 Aug. 1843.

<sup>16</sup> FO 195/241, R.W. Brant, Izmir, 25 Aug. 1843 to Canning. The firm had extensive links with European financial circles, especially in Marseilles and London.

<sup>17</sup> Hazım AtıfKuyucak, *Para ve Banka*, Vol. 2 (İstanbul, 1948), p. 153 cited in Edhem Eldem, *Ottoman Bank* (1999), p. 21.

government for the handling of financial transactions the former had undertaken with the British government related to military purchases. In fact throughout 1841 and 1842 the Ottoman Government was paying for military related purchases it had made from Britain during the Egyptian Crisis (1839-41). To effect the installments Baltazzi Brothers were buying bills on London which they were giving to the British Embassy and which the latter was endorsing to the Lords Commissioners of HM Treasury. The British banking house of Niven, Kerr Black & Co. in Istanbul were acting as the financial agents of the British Government. The Greek house was purchasing such bills from merchants in Istanbul, mostly Greek or British, who were quite willing to sell them to them. A good number of the bills of exchange furnished by Niven Kerr Black & Co. to the British Embassy in Istanbul were bills drawn on Chiot houses in London, many formerly from the Izmir region, such as Ralli Brothers, Schilizzi & Co., Rodocanachi Son & Co., Spartali & Lascardi, Argenti Sechiari & Co., Ralli Cavati & Co., Ionides & Co.<sup>18</sup> It is thus possible that Baltazzi Bros. needed specie in order to purchase such bills at a discount for the Ottoman Government.<sup>19</sup>

### **Monetary Practices and Trade**

By May 1842, when the purchase for export of harvested Ottoman goods started and local specie were needed to make such purchases in the interior, there was no specie to be had. However, it was with *beşliks* that exporters used, amongst whom the Europeans were well represented, to buy such goods from Ottoman sellers in the city's bazaar or through their agents directly from the producers in the interior; equally exporters used *beşliks* to purchase internal and/or external bills of exchange, drawn on Europe or other centers in the Empire, in order to

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<sup>18</sup> FO 195/178 Niven Kerr Black & Co., Galata, 5 Jan. 1842 to Ch. Bankhead, Istanbul.

<sup>19</sup> FO 195/178, a series of payments recorded eg C.S. Hanson & Henry Jacob, Galata/Istanbul, 27 Oct. 1842 to Sir Stratford Canning, Galata/Istanbul.

remit money to meet their exports-related obligations.<sup>20</sup> Such a seasonal strain in the circulating medium had repercussions on trade, the life line of Izmir's economy, given the already existing liquidity stress in the city's money markets: purchase of a series of goods starting with cereals and olive oil and then opium and other products --for which funds had to be sent to the interior and to the Aegean islands-- started to be made with *takas*.<sup>21</sup> These differed from other credit notes used erstwhile for they were payable in the eighth, that is in part, thus extending the credit even longer which made these IOUs very attractive and hence likely to be extensively circulated. Yet not to have had recourse on any credit instruments would have only aggravated the situation further. The downside of the wide acceptance of these credit instruments became a reluctance to pay with specie even when possible and a tendency to hoard it instead, either from lack of confidence in the long term prospects of the easing of the monetary situation or because the *takas* offered the potential to use available cash more profitably and still be able to afford to make purchases.<sup>22</sup> Nevertheless, these credit notes did not inspire confidence on the part of certain sections of the city's merchant community, who had to accept them in essence in lieu of cash rather than as a credit instrument.<sup>23</sup> This group went as far as to claim they were illegal; given their extensive circulation in Izmir at the time and presence in the Middle Eastern credit markets,

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<sup>20</sup> PRO, FO 195/177, European Merchants, Izmir, 18 Jan. 1843 to R.W. Brant, British Consul, Izmir, enclosed in letter of Brant, Izmir, 20 Jan. 1843 to British Ambassador, Istanbul.

<sup>21</sup> PRO, FO 195/177, Members of the Administration of the Bank of Smyrna, Izmir, 18 Jan. 1843 to R.W. Brant.

<sup>22</sup> PRO, FO 195/241, Cramer, 2<sup>nd</sup> Memo, 24 Aug. 1843.

<sup>23</sup> "Ces bons consistaient en chiffons de papier ne portant la plupart du temps que des initiales de nom pour toute signature; souvent même la date ... était omise. Enfin ces prétendues obligations étaient acquittées par de nouveaux bons, ceux-ci par d'autres encore, et ainsi de suite; de telle sorte que l'on était souvent obligé de faire courir pendant plusieurs semaines sans pouvoir se faire payer en effectif". PRO, FO 195/177, Members of the Administration of the Bank of Smyrna, Izmir, 18 Jan. 1843 to R.W. Brant, British Consul, Izmir, enclosed in letter of Brant, Izmir, 20 Jan. 1843 to British Ambassador, Istanbul.

before and after the 1840s, this could not be the case.<sup>24</sup> Those who opposed the use of *takas* were usually better-off merchants active in the export trade; had greater access to western credit markets; were mostly, although not exclusively, western (mostly Europeans with some Americans amongst them) who had been established in Izmir for one or more generations by the time of our study, namely the 1840s. Whilst they were certainly not newcomers to Izmir's business sectors, they were still in the process of expanding their activities in the city-dominated regional economy as the latter was undergoing both growth and change. They were mostly established in Izmir as family firms, had often other family members elsewhere in the Ottoman Middle East and the better-off amongst them sought to enter Izmir's banking sector, since they were in part already acting as merchants-cum-bankers. It should be noted, however, that there were Ottoman merchants who had similar business profiles as the above group, both Ottoman Muslims (Turks, Arabs) and ottoman non-Muslims (Armenians, Greeks, Jews).

It was not the credit notes *per se* that this group of merchants disapproved of only but their impact on other monetary operations in Izmir, too. Namely, when buying goods from producers in the interior of Anatolia and the Aegean islands for export, these merchants needed *beşliks*, for such purchases were almost invariably made in cash, but they could find only *takas*. Given that they had already contracted with buyers in Europe for specified purchases of goods to be done at harvest time they were pressed to find specie and the only way to do so was by exchanging *takas* for cash. Now whilst these credit notes changed hands *in lieu* of specie, the

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<sup>24</sup>“[Éant] d’une redaction inégale, dont le payment était indéfini et dépendait toujours de l’arbitraire qu’y mettait le débiteur”. PRO, FO 195/241, de Cramer, Managing Agent of the Bank of Smyrna, 1<sup>st</sup> Memorandum, Izmir, 21 Aug. 1843.

Europeans were obliged to exchange them for *beşliks* at a discount rate that started off at ½% and, as the market became tighter, gradually reached 2%.<sup>25</sup>

In doing so they appeared unable or unwilling to understand the inner workings of the system, and the degree of trust that *did* in fact operate amongst the participants of the city's credit market in order to ensure its short-term functionality and long-term sustainability. For this was certainly not the first time that credit notes circulated extensively in the market of Izmir, and one could safely assume that it was not going to be the last time either. For 20 years later, similar practices were reported as being widespread in Izmir without causing any alarm or undermining the confidence of the market. Once more credit notes were used by retail dealers in the bazaar to pay for imports of goods from other Ottoman or western merchants; some of these credit notes were payable at a fixed date whilst others had no specific maturity date, with the debtor paying instead a portion every Saturday to the creditor. Although they were rarely discounted by a banker, even within Izmir's informal banking sector, they did pass from hand to hand among the city's markets.<sup>26</sup> Moreover, extensive use of credit notes was not unique to Izmir either within the Empire's major provincial markets. In 1859 in Aleppo, for instance, orders at sight instead of being paid with cash, were exchanged by the *saraffs* for other orders which circulated amongst themselves, so that any transaction, in the final analysis, was being carried out "by a species of paper currency", which is what these credit notes in the Syrian city had virtually become.<sup>27</sup>

Given that this story of economic rivalry unfolds in the early 1840s, it is possible that the reaction of the Europeans to Izmir's credit practices was in part due to their relative lack of

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<sup>25</sup> PRO, FO 195/241, F.H. de Cramer, Managing Agent of the Bank of Smyrna, 2<sup>nd</sup> Memorandum, Izmir, 24 Aug. 1843.

<sup>26</sup> Farley, *Resources of Turkey*, p. 87.

<sup>27</sup> PRO, FO 78/1452 Consul J.H. Skane, Aleppo, 28 May 1859, to Sir Henry Lytton Bulwer, Ambassador Istanbul.

experience of the internal dynamics of the credit sector that one only acquired through active and direct participation in it from *within, and without* any intermediaries, that is local brokers. In the 1840s, the Europeans were still in the process of penetrating economically the interior for trade and the city's speculative monetary sector, including merchant banking operations, for a share of the business these sectors could offer. These were of course not new to them either: the families that led this group had a presence, through male members of the family, in Izmir which could go back to the 18<sup>th</sup> century.<sup>28</sup> As such they had since then almost in equal measure lent to and borrowed money from local merchants and members of the administrative elite as well as had speculated in currency trading.<sup>29</sup> By the early 19<sup>th</sup> century they had started going to the interior to trade well before the 1838 Trade Convention had given them the legal right to do so given that the Ottoman economy had always been relatively open and the market opportunities of the early 19<sup>th</sup> century propelled them forth in ways that were markedly different from the 18<sup>th</sup> century.<sup>30</sup>

Indeed, from the middle decades of the 19<sup>th</sup> century onwards, westerners' participation in Izmir's regional economy will grow quantitatively as well as qualitatively. In the process they will become *part* of the city's *resident* business and social elite, although they will also have members in the city's lower socio-economic brackets.<sup>31</sup> As Izmir together with its hinterland, at large, would become more integrated into the international market, following a pattern evident especially in other port-cities across the Ottoman Mediterranean, the westerners too became more integrated in the economy and life of the city. This does not mean that they did not meet with rivalry from entrenched and established vested interests in the city and its environs, every

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<sup>28</sup> E. Frangakis-Syrett, "Networks of Kinship, Networks of Friendship", *Eurasian Studies*, I/2 (2002), pp. 190-2.

<sup>29</sup> See E. Frangakis-Syrett, *The Commerce...*, p. 154.

<sup>30</sup> For more details on their trading activities in Izmir and the Anatolian interior, see A. B. Cunningham, ed., "The Journal of Christophe Aubin: A Report on the Levant Trade in 1812", *Archivum Ottomanicum*, vol. 8 (1983), pp. 18, 20-1, 26-7, 38.

<sup>31</sup> To be sure not every westerner in Izmir belonged to the city's elite; there were those who belonged to the more modest socio-economic strata of Izmir and its environs. For more details see M-C Smyrnelis, *Une société hors de soi* (2005), pp. 188-92.

step of the way, whilst they were seeking to expand their economic activities and profile -- quite the contrary. Although they were certainly not chased away, they did not emerge dominant in the various economic sectors they achieved entry in. The exception to this was western financial capital that came to dominate infrastructure and banking in Izmir as elsewhere in the Ottoman Middle East. However these financial concerns did not establish themselves in the area but rather invested from afar. As far as those westerners who established themselves in the Ottoman Empire, including Izmir, whilst they had assets –better access to commercial and credit markets and networks in the West—they were not all powerful. Competition between them and the locals continued. Yet it was rivalry that did not necessarily pit one group against another; rather it was an economic rivalry that resulted in endless and at times over-lapping combinations going across ethnic and confessional lines and certainly blurring the western/Ottoman divide.

Availability of credit was a factor that aided competition; yet extensive use of credit over-exposed the market to potential risk and speculation by reckless businessmen which was in part reflected in the interest rates, which were at levels far higher than what was acceptable in the West.<sup>32</sup> For the danger always existed of considerable instability occurring in the local market with a runaway amount of credit being almost ‘self-generated’, over and above what the market could have sustained and still maintained the confidence of the public too once everybody from -merchants to shopkeepers and traders-- had started using *takas* virtually in lieu of specie.<sup>33</sup> Another factor influencing the state of the Izmir money market at the time was the climate of uncertainty concerning the nature and extent of the monetary policy being formulated at government level which made currency and credit markets across the empire jittery and likely to

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<sup>32</sup> An innovative and over-extensive circulation of credit paper in lieu of specie also occurred in Marseilles in the 1770s and which did not survive the European-wide financial crisis of 1774. Frangakis-Syrett, *Trade and Money...* pp. 69-71.

<sup>33</sup> PRO, FO 195/177, Membres d’administration de la banque, Izmir, 18 Jan. 1843 to R.W. Brant, British Consul, Izmir enclosed in letter of Brant, Izmir, 20 Jan. 1843 to Brit. Ambassador, Istanbul.

be more volatile than usually and individuals more likely to hoard their wealth. For a merchant functioning within this economic climate, his only way to get specie was to sell his bills of exchange, especially those drawn on Europe, even when he considered prices to be too low, that is, to sell his bills with big discounts.<sup>34</sup>

Selling bills on Europe was usually a seller's market and the purchaser usually stood at a disadvantage. Nevertheless the founders of what would be the Bank of Smyrna felt that this was not so and blamed local merchant bankers for this state of affairs. The reason for this was probably the strong position that they had in this sector, working in unison with the Galata bankers in Istanbul, too while the westerners wanted a (bigger) share of the business for themselves. That said, it must also be noted that there were Europeans,<sup>35</sup> usually based in Istanbul, rather than Izmir, who dealt in bills on Europe at times doing so on behalf of the Ottoman Government, too. Now the Izmir-based western group decided to set up a bank "to buy or furnish Bills of Exchange upon Europe" claiming that they could give better service to the merchants and at lower discount rates. For the merchant would by applying to the projected bank directly and without the medium of a broker, "thereby saving the charge of brokerage to each party".<sup>36</sup> In addition, the founders of the bank claimed that they would make short-term credit more available to Izmir's merchants thus alleviating the need for the latter to sell their bills at an inconvenient for them time. They further claimed --and with justification one should here add-- that the lack of such financial institution(s) in Izmir was another reason that made the merchants turn to dealers of bills of exchange, especially foreign bills, when in need for cash

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<sup>34</sup> PRO, FO 195/241, F.H. de Cramer, 2<sup>nd</sup> Memorandum, Izmir, 24 Aug. 1843.

<sup>35</sup> E.g., PRO, FO 195/178 (1842).

<sup>36</sup> FO 78/594 (Pt 1), Hardy to British Ambassador, enclosed in Canning, Istanbul, 25 Jan., 1845 to the Earl of Aberdeen, FO.

even if this was not a good time for them to be in the market for such transactions.<sup>37</sup> They did not win the day as their bank would be closed only after over a year of operations by the Ottoman government. Indeed, two decades later, discounting of bills of exchange, including foreign ones, were still being carried out in Izmir by Ottoman bill brokers, who had added to their brokerage business that of discounting bills, a kind of bill-jobbing, namely buying foreign bills and paying for them in 3 or 4 weekly installments reselling with their endorsement (on the place), at a profit and getting a ¼% brokerage besides on the transaction.<sup>38</sup> It was certainly a profitable business well worth entering into.

## II

### *The Bank of Smyrna (1842-43)*

It was at that juncture of events that on 2 May 1842, "...nearly all the British merchants ... together with the greater majority of the most respectable merchants of other nations"<sup>39</sup> decided to establish the Bank of Smyrna.<sup>40</sup> The Bank of Smyrna appears to have been the first effort at establishing a western-style institutionalized banking concern in the Ottoman Empire; it occurred within the framework of other such attempts by the British to establish banks in the 1840s in the eastern Mediterranean at large.<sup>41</sup> It would be short-lived as in just over a year the Ottoman government would issue, on 6 August 1843, a decree closing it down.<sup>42</sup> Its demise would ensure that any future European capitalists would go first the diplomatic-cum-political

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<sup>37</sup> FO 195/241, Cramer, 1<sup>st</sup> Memo, Izmir, 21 Aug. 1843.

<sup>38</sup> Farley, *Resources of Turkey*, p. 80.

<sup>39</sup> FO 195/178, J.A. Werry *et al.*, Izmir, 20 Jan. 1843 to British Ambassador, Istanbul.

<sup>40</sup> This was how they described their venture: "La Banque de Smyrne est un établissement de commerce par actions, fondé par nous et pour nous, Européens, pour la facilitation et la sécurité de nos affaires mercantiles...nos opérations se bornent exclusivement à ouvrir des comptes courants aux maisons de commerce, à prêter ou à escompter des lettres de change...". FO 195/177, Membres d'administration de la banque, Izmir, 18 Jan. 1843 enclosed in letter of Brant, Izmir, 20 Jan. 1843 to Sir Stratford Canning, British Ambassador, Istanbul.

<sup>41</sup> There was for instance the Commercial Bank established by British merchants, active in the currant trade, in Patras, Greece in 1846. E. Frangakis-Syrett, "Monoculture in Nineteenth-Century Greece and the Port City of Patras", *Journal of the Hellenic Diaspora*, 20/2 (1994), p.15.

<sup>42</sup> *L'Écho de l'Orient*, Izmir, 25 August 1843.

route and seek to get the support first of their own diplomats and then of the Ottoman government as well as capitalize and organize their venture better. Indeed, there were a number of other short-lived banking ventures, following the demise of the bank, all tellingly in Izmir, in the 1840s; it is not clear why they were equally short-lived except for the fact that adverse economic conditions in the late 1840s must have played a role in their fortunes.<sup>43</sup>

Most of the founders of the Bank of Smyrna were merchants of some standing with a few independently wealthy individuals too— *“on y compte peu de rentiers”*.<sup>44</sup> Overall, it was primarily a British establishment, as all the British merchants (with one exception) were members of the bank and together they represented 3/5 of the bank’s capital. Also, most of the members of the administration of the bank were British and represented economically well off and longstanding members of Izmir’s business community— e.g., J.F. Hanson, J.J.A. Werry, C. Whittall, W.G. Maltass, J. Langdon (American), J. Pagy (French), W. Chasseau (British), Frederick de la Fontaine (British). Moreover, when threatened by the Porte with closure, they initially stated that they were willing to regroup again and operate as a group of individuals under the company name of C. Whittall. However, other western merchants, notably the French and the Dutch were also represented, as were the Austrians, some of whom were prominent merchants-cum-merchant bankers in Izmir at the time, as well as local merchants. Indeed practically the entire western business community was there —there were Americans, too-- including some of the oldest and best established trading houses some of which dating since the 18<sup>th</sup> century. It is not very clear how much capital the bank represented in total or in terms of the British share, as there is no specific reference as to the former and evidence is confusing as to the latter. Apparently, there is a reference to two-thirds of the capital invested in this bank, together

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<sup>43</sup> Kasaba, *The Ottoman Empire and the World Economy*, pp. 71-3.

<sup>44</sup> FO 195/241, F.H. de Cramer, enclosed in Brant, Izmir, 25 Aug. 1843 to British Ambassador, Istanbul.

with the amount that had been deposited in the bank, as of 20 January 1843, being exclusively British and amounting approximately to 100,000 silver Spanish dollars or £20,000 and elsewhere the sum reserved for the British participation in the Bank is quoted as 80,000 Spanish dollars or £16,000.<sup>45</sup> It may be however that 80,000 Spanish dollars represented the British share in the initial capital of the bank with a further 20,000 Spanish dollars or £4,000 being deposited in the bank by British shareholders or clients bringing British participation to 100,000 Spanish dollars overall.<sup>46</sup>

Although the bank was a joint-stock company whose statutes were published at its inception in the local press of the city, and was considered a European concern in the public opinion, it was not exclusively made up of British and other westerners: among its shareholders were also a good number of mostly western-protected local merchants of Ottoman origin--from the 74 shareholders who formed the bank, almost a third of them could be classed as such-- and there were some Ottomans too.<sup>47</sup> Yet, it is often impossible to tell for certain how any merchant active in the Ottoman Empire for a long period of time made his initial capital, irrespective of whether he was a westerner with a long-standing residence in the Levant, a western-protected merchant of Ottoman origin or an Ottoman merchant. Irrespective of their legal status, it is thus most likely that amongst the bank's shareholders there were those that represented, even when not Ottoman subjects at all, local capital accumulated from profits made in Izmir or elsewhere in the empire. The bank had also a local clientele, being very mindful to attract such clientele from

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<sup>45</sup> PRO, FO 195/178, Messrs. J.A. Werry, Frederick de la Fontaine, C. Whittall, Izmir, 20 Jan. 1843 to Sir Stratford de Canning, Istanbul. The other British banking venture, the Commercial Bank, [see note # 42] was rather better capitalized, although not much more, with an initial sum of £35,000. This bank too only lasted a year (1846-47); it would appear this was more due to adverse international economic conditions than to inauspicious political circumstances or local competition.

<sup>46</sup> PRO, FO 195/178, Messrs. J.A. Werry, Frederick de la Fontaine, C. Whittall, Izmir, 20 Jan. 1843 to Sir Stratford de Canning, Istanbul.

<sup>47</sup> Apparently after the Porte protested Ottoman merchants who were shareholders had to leave the bank.

the beginning, which shows that its founders were well integrated in the city's business world.<sup>48</sup> Despite their presence in the bank, not all non-Muslim local entrepreneurs were private (small scale) bankers or stood to gain from the circulation and discounting of credit notes and other operations arising from specie scarcity; nor did they all stand to gain from the application of a discount to cushion the falling value of the piaster when buying Ottoman coins or cashing bills of exchange in them, which were some of the features of commercial banking in Izmir at the time. In fact, as merchants, they were equally and similarly affected by such monetary operations, and potentially negatively, as were the westerners.

### **Commercial Banking**

In the words of the founders of the bank, their aims were based on the same principles as those with which institutionalized banking was being established in commercial cities of Europe. Yet their goals and strategies also reflected both the situation in the money markets of the Ottoman Empire at the time and their perception of it: for in their own words, through the bank they sought, "...to put down local commercial abuses [as they perceived them]; to reduce the usurious rates of interest; to give an effective central facility to the moneyed transactions and various other commercial facilities".<sup>49</sup> The Bank offered to make payments for clients charging an apparently modest commission rate as well as to discount bills of exchange and all other instruments of payments or to buy bills, both internal ones and bills drawn Europe.<sup>50</sup> They would return to these themes many times, whilst all along restating, too, that the bank's aims were purely to facilitate commercial banking operations, what can be called retail banking, adding that they sought to do was to offer facilities to merchants of good standing for short term credit at

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<sup>48</sup> PRO, FO 195/241, F.H. de Cramer, enclosed in Brant, Izmir, 25 Aug. 1843 to British Ambassador, Istanbul.

<sup>49</sup> PRO, FO 195/178, Messrs. J.A. Werry, F. de la Fontaine, C. Whittall, Smyrna, 20 Jan. 1843 to Sir Stratford de Canning, Istanbul.

<sup>50</sup> PRO, FO 195/241 de Cramer, enclosed in Brant, Izmir, 25 Aug. 1843 to Sir Stratford Canning. "...à escompter des lettres de change et des billets obligatoires du commerce, à ordre et à échéance fixe."

good interest rates as well as the opportunity to deposit their money at relatively modest interest rates so that they could also borrow at rates lower than those prevalent in Izmir at the time.<sup>51</sup> Yet all these operations were not dissimilar to the activities that bill brokers undertook for their clients although they may have done it with less cash and with a greater use of credit notes as well as with higher interest rates than the proposed bank; on the other hand maturity dates on loans and on bills were also much more flexible than that of the bank. Did this constitute ‘dealing in Turkish coin’ especially from May 1842 to March 1843, or of manipulating the exchange rates for speculation?<sup>52</sup> These were accusations that the local bankers, not impartial parties either, leveled against the Bank and which the Porte articulated: “... [ils] vendent même des monnaies turques aux prix qu’ils veulent at aux prix les plus hauts qu’ils peuvent obtenir”.<sup>53</sup> It is ironic that these were claims that the westerners had been routinely making against the local bankers, money changers and/or money lenders. In the final analysis the Europeans must have dealt if not in money changing then in arbitrage as well as periodically impacted the Izmir money market through such operations. Through the bank they did seek to impact the exchange rates; the problem was so did the locals too (unofficially) and even more so the Ottoman Government at the time through its monetary policies. For all of this occurred on the eve of the Ottoman Monetary Reform of 1844.

As far as the bank’s founders were concerned, a further reason for establishing the bank was to resolve a problem that the market of Izmir was not unique in, that of dealing in varied, large and cumbersome coins, whose exact metal content and market value might have been only perceptible to an expert, and thus incidentally doing away with another of the activities of the bill brokers who also acted as money changers and in the process as sort of short-term informal

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<sup>51</sup> PRO, FO 195/241 de Cramer, enclosed in Brant, Izmir, 25 Aug. 1843 to Canning, Istanbul

<sup>52</sup> FO 195/241, R.W. Brant, Izmir, 25 Aug. 1843 to Canning, Istanbul.

<sup>53</sup> PRO, FO 195/241, HE Refaat Paşa, Istanbul, 7 Aug. 1843 to Canning, Istanbul.

deposit bankers, too. For local merchants, especially those coming from the interior with a certain amount of cash to trade with, were often inclined to leave their funds in such coins with their bill brokers rather than carry them around.<sup>54</sup> By closing what they saw as an accounting loophole and eliminating having to keep accounts and carry out transactions in far too many currencies, all potentially with fluctuating values, they thus hoped to be able to induce merchants, at least the westerners, to place their funds with the bank –since placing such funds with money changers would no longer be necessary. Together with the bank’s own funds, a central pool of capital would be created to be lent out to the city’s merchants and other investors.<sup>55</sup> Two decades later, the situation had not changed in this regard: when the Imperial Ottoman Bank started its operations in Istanbul in 1863, it found that warehousing and keeping track of these large coins was quite a task.<sup>56</sup>

### III

#### **The Bank of Smyrna vs. Izmir’s local bankers: Allegations of Paper Emission**

Amongst the stated and primary goals of the bank was the reduction not only in the use of *takas* but also in the circulation of debased local coins which, given the acute scarcity of the *beşliks*, had reappeared in Izmir and which the westerners saw as particularly harmful to their interests; the latter most likely did not have the expertise to tell their exact value or more importantly they were part of the networks that speculated in them. The local merchants buying western goods –for the westerners could be importers too-- were at the time apparently being ‘forced’ to accept such coins --which were mostly local but could be foreign too—as payment

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<sup>54</sup> PRO, FO 78/594 (Pt 1), Hardy’s reply to Brit. Amb., Istanbul, 25 Jan. 1845 to FO.

<sup>55</sup> FO 195/177, Membres de l’administration de la Banque, (Wm. Chasseaud, C. Whittall, J.A. Werry, F. de la Fontaine, J. F. Hanson, J. Pagy, W.G. Maltass, F.H. de Cramer), Izmir, 18 Jan. 843 to Brant, Izmir.

<sup>56</sup> “Le poids énorme des monnaies de mauvais aloi et de cuivre, et l’espace qu’elles occupent nous mettent souvent dans l’impossibilité de les emmagasiner avec sécurité: quant à la vérification de nos caisses, elle est une opération ordinairement impossible et qui doit se borner à la constatation de la presence du nombre de sacs.” IOB Archives, Archives Nationales, Paris, 207 AQ/167.

and at discount rates which were embedded in the exchanges which fluctuated greatly. The westerners reluctant to hold on to such coins converted them on the international rates of exchange almost invariably at a loss. A further reason for their reluctance was that these coins were often in some way or other adulterated or manipulated.<sup>57</sup> For any market faced with an inadequate volume of circulating medium would value a coin over and above its metal content or other state. This was a phenomenon that was neither unique to Izmir nor indeed to Ottoman markets.<sup>58</sup> It is not clear however, given, the specie scarcity that existed, with what actual specie the Europeans themselves were paying the locals for goods *they* were buying for export, except by selling their bills on Europe, which were always in demand, at discount, in order to get specie – any specie.

Given how acute scarcity of the circulating medium was affecting the westerners' import trade, and in other ways their export trade too, they sought to change the dynamics of the currency and credit markets of the city to their favor by establishing the Bank of Smyrna and sought to get everybody to agree to give and receive from each other a whole array of Ottoman and western currencies, but at set rates of exchange and with a set discount rate which would hold for a certain period of time. As a result of this agreement, which actually did come about, an instrument of payment that became known as *monnaie de lettres de change* started circulating in Izmir or at least within the Ottoman-European business circles of the city.<sup>59</sup> Coins exchanged according to the terms of this agreement became also known as *bonne monnaie, sağ akçe* or

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<sup>57</sup> “...et les marchands indigèes profitant de cela pour ne plus payer aux Européens contre marchandises que toutes sortes de monnaie turques et autres sur lesquelles le négociant franc éprouvait une perte considerable (la plupart de ces monnaies qu'on lui donnait étaient rognées ou passées à l'eau forte)”. PRO, FO 195/241, Cramer, 2<sup>nd</sup> Memo, 24 Aug. 1843.

<sup>58</sup> In the late 17<sup>th</sup> century when the money markets of Europe were particularly starved of circulating medium due to the drainage of funds by the governments for military expenditure, clipped coins circulated in the City of London at values well above their remaining metal content. Frangakis-Syrett, *Trade and Money...*, pp. 61-2.

<sup>59</sup> PRO, FO 195/241, De Cramer, 2<sup>nd</sup> Memo, 24 Aug. 1843. It is not known for certain whether it also circulated and to what degree amongst local business circles and/or those dealing with the interior.

*monnaie de banque*.<sup>60</sup> This apparently led to a ‘misunderstanding’ that the bank was issuing its own notes, which it vigorously denied, although it may well have been the goal in a best-case scenario.<sup>61</sup> Rivalry between the two groups of the city’s bankers intensified.

### Currency Trading

In an effort to stop the Porte from closing down the establishment a few months after its operations, De Cramer, on behalf of the Bank, emphasized strenuously the fact that the latter not only did it not issue its own money, it also did not trade in money either in any way (import or export specie) or employ any *sarrafs*. To further support their disclaimer of any interest in currency dealing, or in increasing for purposes of speculation the value of the *guruş*, they reasoned thus. Since the bank’s initial capital was in Spanish silver piastres and since they had to pay dividends to its shareholders in this currency, if they increased the value of the *guruş*, --in order to function locally they had to use Ottoman coins and thus they had to change at least part of its capital into them-- when converting them back to Spanish piastres they would experience a loss. For the artificially and unsustainably high level of the Ottoman currency would not be reflected in the international rates of exchange.<sup>62</sup> For all their disclaimers, trading in money as a commodity was an activity that both locals and Europeans had been undertaking since the 18<sup>th</sup> century alongside commodity trading if they had the resources to do so and Izmir’s market was known for such operations. The reason for these disclaimers was that the Porte accused them of

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<sup>60</sup> PRO, FO 195/177, Administration of the Bank of Smyrna, 18 January 1843 to Brant, Izmir.

<sup>61</sup> The term *bonne monnaie* which was current since the 18<sup>th</sup> century and most likely earlier too, denoted money or rather coins that had stable value and were almost invariably western currencies. The term has been coined by Charles Carrière, “Réflexions sur le problème des monnaies et des métaux précieux en Méditerranée orientale au XVIIIe siècle”, *Commerce de gros, commerce de détail dans les pays méditerranéens, XVIe-XIXe siècles* (1976), pp. 1-20.

<sup>62</sup> “Dire de la Banque qu’elle spécule sur les monnaies dont elle élève les prix pour en bénéficier c’est avancer l’absurde. Le capital de la banque est en *piastres effectives d’Espagne*. Elle en doit compter à ses actionnaires en cette monnaie; pour les opérations du commerce la majeure partie de ses fonds doit être convertie en piastres du Grand Seigneur. Or, si elle faisait hausser la monnaie, elle travaillerait à sa propre ruine, car pour remettre ses capitaux en piastres fortes effectives d’Espagne, elle subitait, par cette hausse même des pertes continuelles et énormes”. PRO, FO 195/241, Cramer, 2<sup>nd</sup> Memo, 24 Aug. 1843.

influencing the rates of exchange and thus likely to interfere with its monetary regulations program as well as considered any activities which were being carried out openly and with some success, in relation to exchange rates, as intrusion to its sovereignty.

As far as the bank was concerned, its claims were only partially true: for as the British Consul in Izmir stated in a letter to his Ambassador "... the Bank when first established, did deal in Turkish coin, but it stopped this since last March".<sup>63</sup> In addition, when the local press reported the news in late 1842, which it did rather briefly and with a distinct tone of restraint, calling the bank "*une combinaison*" rather than a bank, it did nevertheless state that it was being established in order to reduce the continuous fall of the local currency in the exchange rates.<sup>64</sup> Even then however it was thought that such an aim whilst correct was over-ambitious and more befitting to the Ottoman government to undertake.<sup>65</sup> No matter what the case was, the 1840s were a period that witnessed the culmination of decades of reform policies, even before the Tanzimat were promulgated in 1839, on the part of the Ottoman government, not only in terms of the reorganization of its military and fiscal well-being but also in terms of its monetary policy. The wide variations in the exchange rates of the same Ottoman or foreign coins (the former issued by the government at different periods of time) at different markets in the Empire,<sup>66</sup> reflected not only considerable regionalization and degree of autonomy in the functioning of the empire's currency markets but also two problematic features of its monetary system—namely a weak and volatile local currency as well as specie scarcity – that the ottoman government was intent in redressing. Whilst such a situation had disadvantages for the unification of the Ottoman economy and domestic market as a whole, which both the government and the local markets were aware

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<sup>63</sup> PRO, FO 195/241, R.W. Brant, Izmir, 25 Aug. 1843 to Canning, Istanbul.

<sup>64</sup> "... atténuer ... la hausse désastreuse des monnaies" *L'Écho de l'Orient*, Izmir, 9 March 1843.

<sup>65</sup> *L'Écho de l'Orient*, Izmir, 9 March 1843.

<sup>66</sup> *L'Écho de l'Orient*, Izmir, 21 July 1843.

of, it was indicative too of the degree of autonomy in the functioning of these markets and hence of the potential for local participants with adequate financial resources to intervene in it. For the exchange rates were ultimately, and largely, set by market dynamics and where a group of currency traders could potentially seize the moment to fortuitously intervene.

It was not however only the market or arbitrageurs that sought at the time to impact the exchange rates, the Ottoman government too through political means sought to do so too as part of its monetary policy.<sup>67</sup> In 1852, for instance, it sought to raise the value of the *guruş* vis-à-vis foreign currencies –which circulated freely in the empire -- by decreeing the Ottoman currency to be the only legal coin in circulation to the detriment of the foreign coins thus in essence boosting its value. One way to do that – since it was difficult if not impossible to have success with such decrees as far as the markets were concerned – was by decreeing that the peasants had pay their taxes with *guruş* which were valued according to the mint regulations. The latter who already had gold Turkish liras or pounds sterling procured at 120 *guruş* had to get them exchanged by *saraffs* at 108 to 110 *guruş* or to tender them at that rate to the authorities who reissued the coin at its full value cashing in the difference.<sup>68</sup> However, in the previous decade too the pound sterling had stood not only at 120 but even more in the markets of Izmir; for instance in May 1843 it was trading at 129 *guruş*. An additional advantage for the Porte in such decrees was that they stood to receive undervalued western currencies which they could sell at full market value. Besides, the Porte also hoped that by prohibiting good coins – that is unadulterated western coins – from circulation, even temporarily, it could direct these coins to its mint through the forces of the market, too.<sup>69</sup> Another way that exchange rates could be affected – and more

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<sup>67</sup> On the Ottoman policy of devaluation, see Pamuk, *Monetary History...*, pp. 188-200.

<sup>68</sup> PRO, FO 78/905, D. Sandison, Bursa, 8 Sept. 1852 to FO, London.

<sup>69</sup> PRO, FO 78/905, D. Sandison, Bursa, 8 Sept. 1852 to FO, London. On efforts of the Porte to “correct the anomalies and disorders in the currency”, see PRO, FO 78/905, Sandison, 8 Sept. 1852 to Col. Rose.

likely to be effective – was when there were heavy demands for funds to be remitted by firms in Izmir to their parent companies in Istanbul, or the reverse, that is, when companies in Izmir were drawing against Istanbul, which was apparently the case in the early 1860s, then rumors would spread influencing the exchange rates in a manner that suited the situation.<sup>70</sup> In other words the exchange rates in the money market of Izmir could be, and were manipulated at, as well as fluctuated according to market forces before and even after the bank was briefly established.

Whilst it made good business sense for the Bank of Smyrna to have such aims, it was an inauspicious moment for any such interventions given that the empire was at the time on the eve of the 1844 Monetary Reform whose very aim was to stabilize the local currency in the international rates of exchange as well as vis-à-vis a basket of gold and silver currencies that had been issued by the government at different times and which were still in circulation. Of course, the government did tolerate the activities of the local bankers in its various centers, who were often ‘accused’ of doing the same in the western sources and who probably did as dealing in money was a large and profitable sector of the local economy since at least the late seventeenth century. It did so either because it saw them as less powerful or because they were Ottoman subjects and thus controllable or because of both reasons, apart from the fact they were part of the internal banking networks of the empire, closely linked to the Galata bankers of Istanbul and thus also to the Government itself. Because the bank was successful in getting an agreement through that fixed the exchange rates and were also able to maintain the exchange rates, for a further 5 months, lower in the Frank quarter of the city than in the market, as they claimed, that they solicited such alarm from the Porte.

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<sup>70</sup> Farley, *The Resources*, p. 81.

Another aim for establishing the bank, which was moreover openly stated, was in order to regulate the discount rate of the *takas*<sup>71</sup> and even more to reduce their volume, which the bank's founders saw as detrimental to their interests of the entire business community of Izmir. The bank's partial success with this may have also precipitated its end. Within 14 days from commencing operations, by 16 May 1842, the *takas* had apparently effectively ceased to circulate.<sup>72</sup> It is not clear whether this was temporary or not and whether this was the case for the Frank business quarter of the city only or for all the markets of Izmir. They further claimed that after scarcely eight months in operation their impact was visible in the market of Izmir where commercial transactions were being carried out with greater long-term confidence.<sup>73</sup> It must be remembered that they were by then fighting for their very survival as a bank, locked virtually in mortal combat with local banking interests in Izmir and central government policies in the capital. They were thus intent on depicting as positive an image of themselves as possible. Although such claims are not easily verifiable, there was probably both exaggeration and an element of truth in them. For given the considerable capital of the bank, in comparison with what individual bankers could have disposed of, and their ability to act as a group as opposed to individual bankers, constantly competing against each other, they were bound to have an impact on the city's markets and manner of business at least for a while.

### **Revisiting the Exchange Rates**

Whilst they may have wanted to take a greater share of the banking operations of Izmir, an important reason for establishing the bank, and one that was acceptable to voice within the

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<sup>71</sup> Credit notes that merchants used not only to raise capital but also to settle accounts with each other.

<sup>72</sup> PRO, FO 195/177, Members of the administration of the bank, Izmir, 18 Jan. 1843 to R.W. Brant, British Consul, Izmir, enclosed in letter of Brant, Izmir, 20 Jan. 1843 to British Ambassador, Istanbul.

<sup>73</sup> PRO, FO 195/178, Werry *et al.*, Izmir, 20 January 1843 to British Ambassador, Istanbul. The Bank was active in March 1843, as cited in the sources, but it is unclear whether it survived into the fall of that year judging from the heated correspondence of August 1843 and the copious defense they sought to put up for themselves.

public opinion of the city and the empire's other urban centers at large was so as to intervene in lowering and stabilizing the exchange rates; they saw the at times precipitous fall of the Ottoman currency, a trend that was checked by great volatility as the result of speculative currency manipulations by the locals.

They argued that the reasons for such 'excessive' speculation by the locals were because the latter, almost invariably acting as merchants-cum-bankers, would hold stocks in both western and Ottoman currencies. Whilst this was not outside the norm, it enabled them to set the exchanges at rates that gave them an advantage, according to the transactions they were carrying out and the actual currencies they were using. When trading commodities they based the prices they would agree to buy the goods for, by taking into consideration the currency used to transact them in, as well as the exchange and discount rates agreed upon as well as if any credit was to be extended. If they had the market in their favor they closed a deal only, and if, such terms were abided to. Certainly these were terms and conditions that the westerners also bargained upon when closing a deal and if they had the advantage of the market they got terms that gave them an edge over the other party. For the markets and its participants in the Ottoman Empire, irrespective of ethno-confessional affiliation -- Izmir was no exception to this -- were savvy and highly competitive, used to tight profit margins. In such a scenario it would be well worth noting that neither the locals were the 'villains' nor were the westerners 'all powerful'.

Actually, both locals and westerners blamed each other for doing the same thing: speculating on the exchange rates at the detriment of the commercial sector of the city as well as of the local currency. In fact both groups were often acting in the same manner varying it according to the circumstances: they were dealing in currency trading and protesting about it when they were dealing in commodity trading. Certainly both groups were correct in protesting

depending on what each was doing: for calculating prices and profits in obtuse and speculative coins added further difficulties and risks in predicting one's costs and profits, besides greater uncertainty (more than what was considered as the norm in Izmir's market) as to future prices when expressed in such currencies.<sup>74</sup> As merchants they had to plan in advance, especially when they were dealing with long-distance international trade; as currency dealers, they watched the market and intervened whenever they thought it was the most opportune moment to do so.<sup>75</sup> Combining trading commodities with trading currencies had been quite usual for doing business in the Ottoman markets, and to a lesser extent in the West too, in the 18<sup>th</sup> and early 19<sup>th</sup> centuries. Nevertheless this state of affairs was changing as the banking sector was becoming globally more regulated, with the West taking the lead.<sup>76</sup> In many respects the 1840s were a crucial decade for such developments not only in the Ottoman Empire but in Europe at large. The Bank of Smyrna can then be seen in part as the result of the city's greater integration not only in the international market but also in the channels of information pertaining to new business ideas and practices. In this manner the Bank of Smyrna can also be seen as part of the modernization process of the Middle East through the case study here of Izmir.

Through the bank, the westerners finally got their chance, at least briefly, to 'regulate' the monetary situation in the city and impact the exchange rates. On 16 May 1842, two weeks after the start of their operations they made an agreement that set out and fixed for 3 months the rates of exchange of the Ottoman *guruş* against a large basket of currencies, both western and locals,

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<sup>74</sup> It may also be that there had emerged an established and relatively uncontested division of labor in commerce where the westerners saw themselves as 'dominating' the exports sector and the locals the imports sector. However the monetary sector was still being contested by both groups. PRO, FO 195/177, Members of the administration of the Bank of Smyrna, 18 Jan. 1843 to Brant, enclosed in letter of Brant, Izmir, 20 Jan. 1843 to British Ambassador, Istanbul.

<sup>75</sup> PRO, FO 195/177, Members of the administration of the Bank of Smyrna, 18 Jan. 1843 to Brant, enclosed in letter of Brant, Izmir, 20 January 1843 to British Ambassador, Istanbul.

<sup>76</sup> A case in point is the British banking system which underwent important regulatory changes during the Administration of Pitt in this decade.

at a higher rate than in the bazaar of the city – the part of the city’s market controlled by the local bankers – thus privileging the local currency. They did so by getting the city’s political and business representatives to agree to a series of actions: (a) to a higher, but temporarily fixed, rate for the Ottoman *guruş* (which was still higher by an average of 1% eight months later, that is, five months beyond the agreed-upon 3-month period); (b) to a lower discount rate of 5%; (c) to an *agio* rate that was left open allowing the contracting parties room for maneuvering according to the conditions of the market.<sup>77</sup> The bank had in fact calculated that when selling their imports to local merchants in Izmir, the loss on the exchange rate,<sup>78</sup> when converting their *guruş* back into western currencies, was increased further when the discount rate, which was decided upon locally, and which had risen to 7%, was being applied. They further calculated that through such an increase in the rate of discount they were losing more than if the Ottoman currency had a higher rate of exchange vis-à-vis western currencies. By boosting the value of the local currency in the exchange rates, they also hoped that a greater level of stability might be attached to the *guruş*.

Hence with the acceptance of the Governor, and through his good offices, everyone in Izmir, from the Bank of Smyrna to the local *sarrafs* agreed, in view of the extreme dearth of *beşliks* and the problematic nature of the *takas*, to accept all Ottoman coins, even adulterated ones as well as western currencies, but not *takas*<sup>79</sup>, at fixed exchange and discount rates as set out in a tariff list that the bank also produced and to which all the parties agreed to. In addition the bank agreed to accept not only specie but letters of exchange again as long as exchange and discount rates were fixed according to the tariff list. Conversely, the locals were to accept the

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<sup>77</sup> E.g., PRO, FO 195/178, 16 May 1842.

<sup>78</sup> The term used at the time was “l’escompte ou perte de monnaies”.

<sup>79</sup> PRO, FO 195/241, F.H. de Cramer, Managing Agent, Bank of Smyrna, n.d., enclosed in R.W. Brant, Izmir, 25 Aug. 1843 to Sir Stratford Canning, Istanbul.

same currencies and terms (as set out in the tariff list) from the Europeans in payment for Ottoman goods or for bills of exchange.<sup>80</sup> Apparently all groups, the Governor, the Customs officials, the *çarşilis*, the bank, the *sarrafs* as well as the entire merchant community of the city were to keep to this tariff for a period of three months. Currencies that appeared in this tariff list started to be called currencies *at fixed prices* and to be known as *bonne monnaie* or *sağ akçe*. And given how much the Bank had done to bring all this about these currencies also became known as *bank money* or *monnaie de Banque* thus leaving the Bank open to the allegation that its rivals made subsequently that it was issuing its own money.<sup>81</sup> As a result of this agreement the *takas* ceased circulating in the Frank quarter; the new tariff setting the exchange and discount rates held all over Izmir for three months. The agreement reached at between the Ottoman Governor and the Bank of Smyrna was instrumental in the above; in addition, as late as January 1843 a slower increase in the rates of exchange in the city's markets was registered, whilst in the Frank quarter the increase was kept at 1% less than elsewhere.<sup>82</sup> It is interesting to note the specific reference to the Frank quarter where the Europeans' influence was greatest, and hence where the influence of the Bank was greatest too, as opposed to the entire city where banking business might have been conducted at the consent of contracting parties that had little or nothing to do with western merchants, the European bank or the export market.

## Conclusion

It is not clear how long the ability of the bank to influence the city's money market would have lasted but this question cannot be answered since the bank was ordered by the ottoman

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<sup>80</sup> PRO, FO 195/178, tariff included in Werry et al., 20 Jan. 1843 to Sir Stratford Canning, Istanbul; and FO 195/177, Members of the Administration of the Bank of Smyrna, 18 Jan. 1843.

<sup>81</sup> PRO, FO 195/177, Members of the administration of the Bank of Smyrna, 18 Jan. 1843 to Brant, enclosed in letter of Brant, Izmir, 20 Jan. 1843 to British Ambassador.

<sup>82</sup> PRO, FO 195/177, Members of the administration of the Bank of Smyrna, 18 Jan. 1843 to Brant, enclosed in letter of Brant, Izmir, 20 Jan. 1843 to British Ambassador.

Government so soon after commencing operations to cease them. The reasons for its closure are themselves interesting.<sup>83</sup> It is probable, though unlikely, that the bank sought to issue its own notes, for after all British banks at the time had still the right to do, although they were soon to lose it to the Bank of England. It is more probable that their desire to influence the exchange and discount rates was tied to their interest to enter the banking sector of Izmir. Either the same group or another group of Europeans led again by the British came back in 1843 seeking to set up another bank with greater capital, this time, and with Ottoman government's acceptance and British government's support. Although more ambitious, --they aimed at a very extensive range and scope of operations -- their efforts do not seem to have borne any fruit.<sup>84</sup>

Even if the claims of the Bank of Smyrna concerning its temporary influence on the exchange rates were exaggerated and even if their actions were being undertaken primarily for their own interests, yet their attempts to alleviate weakness and high volatility of the local currency in Izmir's money market certainly had their merit. Having aroused the objections of the Porte however, and of the Galata-cum-Izmir bankers too, most likely, they were closed down. With such a prospect being imminent, the bank protested that their enterprise was “[une] *caisse commune du commerce européen*” rather than a bank; they had not issued any paper money nor intended to. Yet the governor claimed, and rightly so, that through its actions the bank had affected the exchange rates of the Ottoman currency. This was contrary to the recent proclamation of the Government that had reached Izmir on 23 July 1843, fixing the exchange rates of the Ottoman currency at 110 *guruş* to one pound sterling.<sup>85</sup> To such claims the Bank's founders replied that since the issuing of paper money or *kaime* by the government was in

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<sup>83</sup> PRO, FO 78/594 (Pt. 1).

<sup>84</sup> For all the details on this, see PRO, BT 1/569 Bank of Smyrna, 1843; see also, FO 78/594 (Pt. 1) and FO 78/553. Further refs are FO 195/241, unsigned memo, 1843.

<sup>85</sup> PRO, FO 19/524, Governor, Izmir, 7 Aug. 1843.

essence limited to the capital and its environs and as “the circulating medium of Smyrna being almost wholly in the abusive coins” and with no new coins being issued or brought in Izmir’s market, it was impossible to eliminate the continuous increase in the exchange rates other than by doing what they did. They even claimed that “government agents” had deliberately drained the market from good money and the bank had to put a stop to such speculative activities, although there is no evidence that this was so. In all likelihood, these ‘deliberate speculators’ were no more but a rival group of local private bankers.<sup>86</sup> What ultimately brought down the Bank of Smyrna were not the machinations of the Baltazzi house or the private bankers in Izmir bearing influence upon the governor and the Porte but rather the fact that a group of individuals, and westerners moreover, had invaded the perceived boundaries of Ottoman sovereignty. Furthermore, they had succeeded in the limited confines of a provincial money market and for a short period of time to do just what the Porte had been attempting to do throughout the Empire, namely to regulate and influence the exchange rates! The bank’s very success also spelled its ruin. For the Porte in the early 1840s still believed that it could succeed in such an operation and it was the Government’s responsibility and privilege to do so. It would take two more decades of trying and the expenses of the Crimean War, among other factors, for the Ottoman government to negotiate with western financiers for the creation, initially of the British-financed Ottoman Bank and subsequently of the Anglo-French financed Imperial Ottoman Bank, which would act in many respects as a state bank, with a view of giving over to it the task of regulating, on its behalf, the exchange rates.

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<sup>86</sup> PRO, FO 19/524, ff. 111-2: undated/unsigned document.