How Did Creditors Enforce Sovereign Debt Contracts?
International Financial Control during the Classical Gold Standard Era

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-Work in progress-

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Ali Coşkun Tunçer

1. Introduction

A fundamental characteristic of the classical gold standard era (1880-1914) was sustained capital flows from core countries to the peripheries in the form of sovereign debt. By the last quarter of the nineteenth century, due to heavy borrowing, several countries encountered difficulties servicing their debt. As a result, many heavily indebted borrowers declared moratoria, which provoked new kinds of enforcement mechanisms by creditors. One measure adopted was the establishment of international financial control organizations (IFCs) which were administered by representatives of the foreign bondholders. IFCs were given the task of administering and collecting specific tax revenues, often those assigned to service particular loans. In some cases, they implemented monetary and fiscal reforms in debtor countries – in effect, implementing institutional change. Although, in general IFCs meant a partial loss of fiscal sovereignty, they undertook different roles in each country, depending on the local institutional framework. This paper, by relying on the cases of the Ottoman Empire, Greece and Egypt, aims to present the activities of IFCs established in each country. The first section discusses the relevance of the topic for the economics and economic history disciplines with a brief literature review. The second section will present the historical process, which led to moratoria and the establishment of the IFCs in the Ottoman Empire, Greece, and Egypt. The third section will focus on the activities of each IFC in a comparative perspective, which will be followed by some concluding remarks.

2. Determinants of "willingness to pay" or why do countries ever repay back their debts?

In the literature on sovereign debt, it has recently been maintained that "ability" to pay for a state is never an issue, as national wealth is almost always greater than national debt, therefore nations can almost never be insolvent. As the main difference between private and sovereign debt is the lack of a straightforward legal mechanism to enforce repayment, this leads to the question of why debt nonetheless tends to be repaid, and why a sovereign debt market can exist.[1] In a seminal paper, J.Eaton and M.Gersovitz (1981) argue that default triggers permanent exclusion from credit markets, and the threat of losing access to credit markets is a sufficient reason for repaying.[2] Since then the literature has evolved in several directions. One line emphasises direct punishments as the reason for repayment such as interference with a country's current transactions either through seizure (i.e. "gunboat diplomacy") or through the denial of trade credit.[3] Another line is built around the idea that incentives to repay sovereign debt are created not so much through the threat of punishment by creditors (whether directly or through the credit market) but rather because defaults inflict broad "collateral damage" on the debtor country government or its economy.[4] A final factor, which might create an incentive for debtors to repay is the "policy conditionality", since the establishment of the IMF. Especially after the Latin American debt crises of the 1980s, the IMF has insisted on explicit policy conditionality to avoid undermining debtors' incentives to repay; and signing a "Letter of Intent" that embodies such conditions has been a precondition for obtaining IMF programme assistance. In some cases, prospective presidents of relevant countries were persuaded to approve targets for fiscal prudence –an example of the loss of fiscal sovereignty.[5]

In contrast to theory and recent history, the historical record suggests that heavy sanctions had been employed from 1870 to 1913 to "punish" defaulters. In this era, the defaults were met with military intervention, trade sanctions, exclusion from international financial markets, and finally formation of IFCs, i.e. partial seizure of fiscal sovereignty by creditors.[6] In fact, establishment of IFCs was part of a broader measure adopted by the creditors. During this period there were different types of bondholder organisations, which functioned in different ways to address different problems. It is

[1] J. Bulow and K. Rogoff "A constant recontracting model of sovereign debt" *The Journal of Political Economy*, Vol. 97, No. 1. (Feb., 1989), pp. 155-178. T. Kelly "Ability and willingness to pay in the age of Pax Britannica, 1890–1914" *Explorations in Economic History* 35, 31–58, 1998.

[2] J. Eaton and M. Gersovitz "Debt with potential repudiation: theoretical and empirical analysis" *The Review of Economic Studies*, Vol. 48, No. 2 (Apr., 1981). J.Eaton and R.Fernandez "Sovereign Debt" *Handbook of International Economics Volume 3, 1995, Pages 2031-2077*

[3] Bulow and Rogoff, 1989, and A. K. Rose and M. M. Spiegel "A gravity model of sovereign lending: trade, default, and credit" *IMF Staff Papers*, Vol. 51, 2004. A.K.Rose "One reason countries pay their debts: renegotiation and international trade" *Journal of Development Economics* 77 (2005) 189– 206. E. Borensztein and U. Panizza "The costs of sovereign default" *IMF Working Paper* WP/08/238, October 2008

[4] U. Panizza et al. "The economics and law of sovereign debt and default" *Journal of Economic Literature* 2009, 47:3, 651–698

[5] M. Miller and D. Thomas "Sovereign Debt Restructuring: The Judge, the Vultures and Creditor Rights" *The World Economy*, 2007

[6] C.Suter, *Debt Cycles in the World Economy: Foreign Loans, Financial Crises and Debt Settlements, 1820–1990*. Boulder, Colorado: Westview Press, 1992. C.Suter and H.Stamm (1992) "Coping with Global Debt Crises Debt Settlements, 1820 to 1986", *Comparative Studies in Society and History*, Vol. 34, No. 4. (Oct., 1992), pp. 645-678. K. J. Mitchener , M. D. Weidenmier "Supersanctions and sovereign debt repayment" *Journal of International Money and Finance* 29 (2010) 19–36.

possible to distinguish three broad categories of bondholders' organizations. The first was the *ad hoc* committees that were created to deal with each individual default and dissolved thereafter -which is the focus of this paper. The second was the indirect representation of bondholders' interests by the banks who had issued the securities of the defaulting sovereign. Finally, there was the model of permanent and independent bondholders' organizations that could potentially represent all bondholders owning a minimum stake of any foreign securities, namely the Corporation of Foreign Bondholders type organisations.[7]

Although it is recently emphasised that "supersanctions" including the formation of IFCs were particularly effective over the period 1870–1913, which reduced country risk by improving a country's fiscal discipline; as regards to the way that these IFCS functioned, to date we have little information.[8] This paper aims to fill that gap by documenting the functioning of this specific enforcement mechanism as experienced by the Ottoman Empire, Greece and Egypt.

3. How did international financial control function? A comparison of peripheries

3.1. Ottoman Empire

Following the 1873 European financial crisis, the Ottoman government declared a moratorium on all outstanding debt in 1876.[9] After prolonged negotiations, in December 1881, *Decree of Muharrem* was signed between bondholder representatives and the government. According to the decree, the outstanding debt of the empire was reduced from about £191 million to £96 million, and unpaid interest payments, which were amounted £62 million, were reduced to approximately £10 million. In return, the Council of the Administration for the Ottoman Public Debt (hereafter the Council) was established to represent the bondholders and act in their interest. The government agreed to transfer to the Council revenues from the tobacco and salt monopolies, several custom duties and the silk tithe of several provinces. The Council had complete freedom to decide on the means of collection these revenues and production. All the hypothecated revenues were to be devoted to the payment of interest and sinking fund

[7] R.P.Esteves, "Quis custodiet quem? Sovereign Debt and Bondholders' Protection Before 1914" *Economics Series Working Papers*, No.323, University of Oxford, Department of Economics, 2007. P.Mauro and Y.Yafeh "The Corporation of Foreign Bondholders" *IMF Working Paper* WP/03/107, 2007

[8] K. J. Mitchener , M. D. Weidenmier "Supersanctions and sovereign debt repayment" *Journal of International Money and Finance* 29 (2010) 19–36

[9] M.Kiray (1988) *Foreign Debt And Structural Change in 'the Sick Man of Europe'*, MIT; C.Clay (2000) *Gold for The Sultan,* Tauris; S.Pamuk (1978) *Foreign Trade, Foreign Capital and the Peripheralization of the Ottoman Empire 1830-1913*, PhD Thesis University of California, Berkeley.

of the Ottoman debt.[10]

Starting from 1883, the Council established more than twenty offices in the various provinces of the Empire extending from Yemen to Salonika, which were to be administered from the central office in Istanbul. During the period studied the Council employed around 4500-5000 officers (including inspectors, collectors, security guards etc.) out of which only 30 to 40 officers were in foreign nationality. Relatively low number of foreign officers was a consequence of a deliberate policy of the Council, which included leaving the provincial executive entirely in the hands of Ottoman subjects, and to entrust only duty control and supervision to foreign officials. In 1882, the president of the Council, Sir Vincent Caillard[11] were explaining this policy with the following remarks:

> "In a country like Turkey, there can nothing more dangerous to the permanence of a system of collection than to levy heavy taxes by means of foreigners. The real amounts paid may indeed be smaller than would be extorted by the Turkish "memour"[12], but the burden will be a thousand times more galling, and the jealousy aroused infinitely greater than if the European administrators consent to work upon Oriental populations through Oriental intermediaries. I am convinced that fiscal reform in the East must take this direction. It is vain to import numbers of highly trained Frenchmen or Englishmen and set them down to apply the methods they have been taught to regard as perfect upon a population alien by race, antagonistic in religion, and perhaps naturally more averse from change than even the most conservative in the European world. Their methods will not take root, and they themselves will become odious to the people. We have seen an example of this in Egypt: the reasons which gave popularity to the late rising there, would operate with far greater force in Turkey".[13]

As indicated in the quotation, lessons derived from the Egyptian experience, and the fear of resistance from the local population made the representatives of bondholders to choose the method of gradually replacing the existing local staff of from its "incapable and untrustworthy" members. Moreover this would be complemented by the employment of high rank officers from Europe with "Western precision and regularity".[14]

In the first two years of its administration, the Council was faced with several difficulties to adjust its methods to the existing institutional framework in its attempts to introduce new production techniques, and to reform the system of tax collection. For example, efforts to replace Ottoman accounting standards with a system of double entry

[10] *House of Common Parliamentary Papers* [PP] 1878 [No.39], 1911 [C.5736].
[11] Sir Edgar Vincent Caillard (1857-1941, later Viscount D'Abernon) spent most of his career in the Middle East as imperial administrator, international civil servant and financier. He served as the President of the Council of Ottoman Public Debt Administration, Financial Adviser to the Egyptian Khedive, and Director-General of the Imperial Ottoman Bank. P. Auchterlonie "A Turk of the West: Sir Edgar Vincent's Career in Egypt and the Ottoman Empire" *British Journal of Middle Eastern Studies*, Vol. 27, No. 1 (May, 2000), pp. 49-67.
[12] Turkish word for "state officer".
[13] Turkish Debt – Report of Mr.Edgar Vincent, London, 1882.pp.9
[14] Ibid.pp.10

were initially unsuccessful, as the Ottoman officers were not familiar with the system. However, in the following years, the Council adopted a more pragmatic approach rather than simply importing Western methods into the Ottoman Empire. Their strategy not only consisted of internal adjustments to make the Council's administrative mechanism more efficient, but also ways to increase the ceded revenues.[15] For instance, regarding the salt monopoly, the Council tried establish trade links with India, America, and North European countries. Moreover, it assigned some of its members with the task of importing system of administration existing in their home country. In the later years of its administration, to overcome the price differentials among the provinces and to encourage market integration between interior and the coastal cities of the Empire, the Council encouraged the government to build roads and railways, and acted as intermediary between foreign creditors and the Ottoman government to sign such loan contracts.[16]

The Council's efforts also extended to establish several schools and institutions to train local producers with a perspective of increasing the quality and the amount of goods. For instance, in order to enter the French wine market, the Council established a nursery in Istanbul to carry out experiments to overcome vine diseases. Although at the beginning the government was hesitant to participate these efforts, later on the Ministry of Agriculture actively joined its efforts with the Council. Similarly for silk production, in Bursa European experts started offering a consulting service to the producers. Later on this service was offered under the School of Sericulture, which was established jointly by the Government and the Council in 1889. This institution not only gave several expertise certificates after a period of training but also organised open competitions for the best production of cocoons and so on.

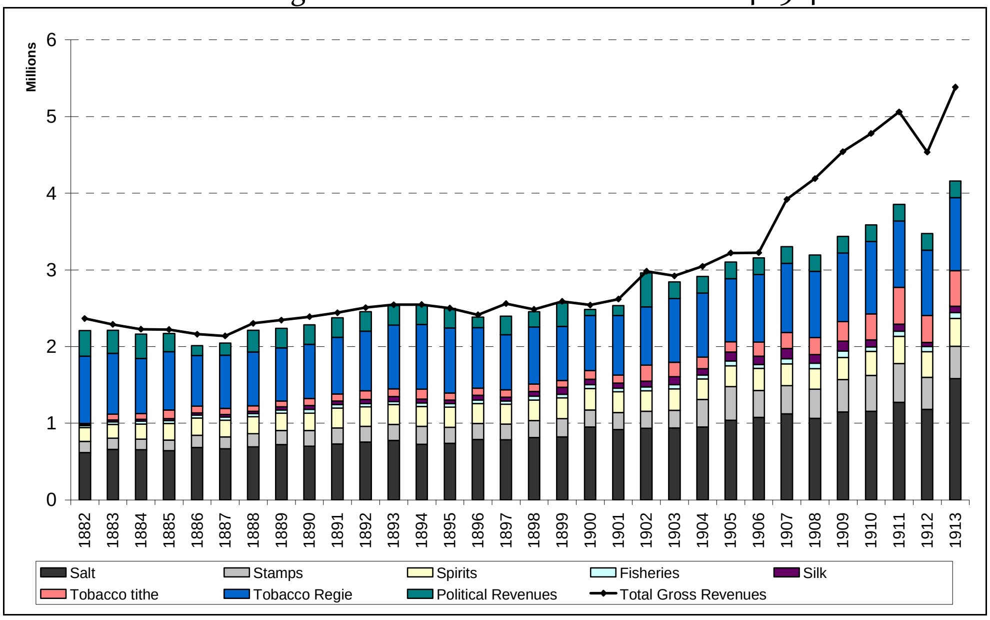
Evidently, the whole picture was not only characterised by the progressive efforts of the Council to increase the production or to establish institutions. In fact, it can be argued aforementioned efforts were exceptions rather than the rule. One of the biggest obstacles that the Council was faced during this period was widespread "armed banditry" and opposition against the administration of foreign creditors. This fact was implicitly supported by the government with a law which allowed the Council's officers and guards to carry weapons but prevented them right to use them even in the case of self-defence. In fight with "smugglers and contrabands", most of the time the result was loss of several lives and a significant part of revenues on behalf of the Council.[17]. Despite logistic support to the government, the banditry and opposition to the Council and its officers

[15] Report of the first quinquennial period (1882-1887), London 1888. pp.14
[16] Report of the second quinquennial period (1887-92), London 1893.pp.36
[17] Turkish Debt – Report of Mr.Edgar Vincent, London, 1882.pp.21-22

continued until the end of creditors' administration.[18]

Overall, the empirical evidence suggests that the Council turned out to work very efficiently in its management of the resources for which it was responsible. As seen from the Figure 1, both the revenues from five direct contributions (silk, salt, spirits, stamps and fisheries), and from *Tobacco Régie* increased significantly.

Figure 1. Revenues of the Council: 1884-1914



Source: Calculated from *Reports of the Council of the Ottoman Public Debt Administration* (1882-1914) and the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1884-1913).

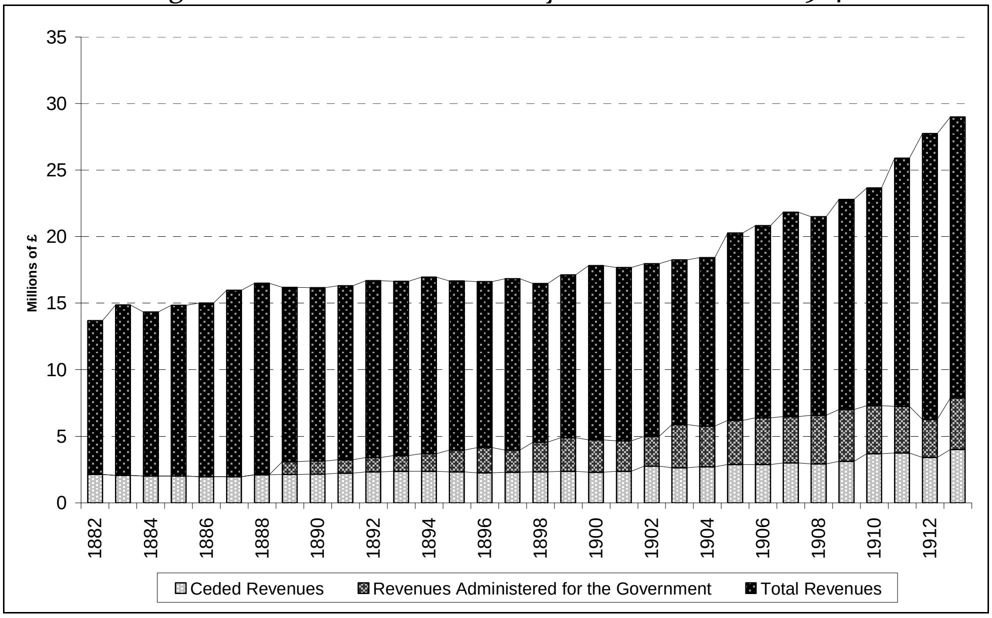
In fact, after 1889 the Ottoman government decided to extend the rights of the Council to collect revenues for its own account. According to the agreement the Council would be responsible of collecting the hypothecated revenues especially for those loans concerning the railways together with tithes of several provinces.[19] The Council, after collecting and reducing the collection expenses, would transfer the entire net revenue to the government. Therefore, the expenses of administration and collection of these revenues were borne by the revenues themselves, and did not fall upon the revenues ceded to the bondholders. From the perspective of the Ottoman Empire this operation was preferable not only to show its willingness to reinstate its credibility in the eyes of the creditors but also it reflected the fact that creditors were proven to be more successful to collect and administer the revenues. For the creditors, on the other hand, the extension of transfer of fiscal sovereignty was seen as a sign of trust between them

[18] Report of the first quinquennial period (1882-1887) London 1888. Report for the second quinquennial period (1887-92), London 1893.
[19] Report for the second quinquennial period (1887-92), London 1893.pp.90, and Report of the third quinquennial period London 1898, pp.109.

and the government, which in return secured the position of the Council in the overall fiscal system of the Empire.[20]

The extent of this control on the total state finances of the empire can be seen from Figure 2, where the ceded revenues, and revenues administered on account of the government are shown together with total revenues of the Ottoman state. The ceded revenues, i.e. revenues transferred to the bondholders to compensate the unpaid interest and capital of the debt in default, were on average 15% of the total revenues of the state. However together with the revenues administered on account of the government, the extent of power of the Council over state finances reached 30% of overall revenues.

Figure 2. Revenues controlled by the Council: 1882-1914



Source: Estimates are based on *Reports of the Council of the Ottoman Public Debt Administration* (1882-1914) and the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1884-1913). For the total revenues of the Ottoman Empire, T. Güran *Osmanlı Mali İstatistikleri Bütçeler 1841-1918 (Ottoman Financial Statistics – Budgets)*, DIE Tarihi İstatistikler Dizisi Ankara Cilt 7, 2003

Although, from the perspective of the creditors the situation was far from their desired model, it still challenges the conventional perception of the Council in the literature as a "sanction" imposed on the government. Not only there were times that the Ottoman government clearly cooperated with the Council in its reform efforts, and expanded willingly the extent of the control, but there were also times that the Council was not willing to be deeply involved in financial matters of the country.[21]

[20] Report of the second quinquennial period (1887-92), 1893.pp.90

[21] A good example is the following remarks of the V.Caillard in 1898: "Little by little we have become, so to speak, the trustees of the imperial government for the execution of financial engagements, which it has entered upon since our administration was created. I do not for one moment wish to decry the honour which has thus been done to us [...] but the honour carries with it a responsibility from which we cannot free ourselves, and though certainly we cannot pretend to be the keepers of the financial conscience of the Turkish government, we should, I think, be altogether neglecting that responsibility if we lent ourselves to a

3.2. Greece

Greece joined the international financial markets in 1879. After 14 years, because of the worsening conditions in Greek economy together with collapse in currant prices in European markets, the government declared moratorium on its outstanding debt of £26 millions.[22] While negotiations for a debt settlement with the creditors were in progress, Greece found itself in a war with the Ottoman Empire in 1897 resulting in a defeat. According to the peace terms, determined with the mediation six powers (Austria-Hungary, France, Germany, Great Britain, Italy, and Russia), Greece was required to pay a war indemnity which made the financial position of the country even worse. Under these conditions, Greece lost its bargaining power with creditors. The representatives of the creditors would rejoice this result with the following remarks:

> "The results of the war with Turkey has proved beneficial to the external creditors of Greece inasmuch as it has not only compelled the Greek government to come to an agreement with the Bondholders in accordance with the terms proposed by their representatives, but it has also necessitated the acceptance of financial control in a form which it would otherwise have been impossible to secure. [The initial proposal] was that the administration of the assigned Revenues should be entrusted to a Régie composed of eight members, one-half of whom were to be chosen by the Bondholders, and one-half by the establishments charged with the service of the Debt. The Greek Government refused to consent to this provision, on the ground that it was an attack on its dignity, and that it showed a lack of confidence in the State to administer its own Revenues. The partial measure of control which the Government absolutely declined to entertain two years ago has now been rendered complete and effective through the result of the war on which Greece entered with so light a heart. However unpalatable to the Greek people the control may be, there can be little doubt that in the long run it will prove as beneficial to themselves as it certainly is to the Bondholders".[23]

In accordance with the preliminaries of peace, in 1898 Greece agreed to sign the Law of Control with the representatives of foreign powers. The government consented to foundation of the *Commission Financière Internationale de la Grèce* (hereafter the *Commission*). The gross proceeds of the monopolies (salt, petroleum, matches, playing cards, and cigarette paper), tobacco dues, stamp dues and import dues collected by the custom-house of Piraeus were assigned to the service of the loans. Finally, the collection of these revenues was placed in the hands of the Monopoly Society registered in Greece,

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course which we should consider to be, not only useless but dangerous for the finances of the empire." Report of the third quinquennial period, London 1898.

[22] CFB (1913-14)

[23] CFB, V.25. 1898.pp.142

which would be placed under the absolute control of the Commission.[24] Unlike the Ottoman case, the Commission was to be administered by the *diplomatic* representatives of the six powers residing in Athens, not the creditors.

Right after the assignment of the Commission, the representatives of powers started investigating ways to improve and extract the highest sum from the revenues under their control. According to the Law of Control, collection of these revenues was implemented by the Monopoly Society, which in return was under the full control of the Commission. Therefore, in order to introduce a change in the production and tax collection, the Commission could ask the government to pass relevant laws. The Commission did not enjoy the right of direct management of the ceded revenues unlike the Ottoman case.

The Commission urged the government especially to establish provincial salt depots, to eliminate the tax evasion and forged stamps in stamp revenue, to speed up the completion of the Piraeus-Larissa railway to increase customs, to suppress the contraband in order to control tobacco revenue, to enforce the laws regulating currant production, to modify the tariff and internal taxation for Naxos emery.[25] Similar to the Ottoman case, the Commission continuously encouraged the construction of new railways with the opinion that "that the new railways, by contributing to the commercial development of the country, will also react favourably on the yield of the Assigned Revenues". Therefore, it acted as an intermediary between the government and the creditors for contracting such loans with the condition that the service should be trusted to the Commission. In this context, in the first two years of its administration, a mood of optimism was prevalent in the Commission.[26]

In the later years, however, in matters relating to the administration of the assigned revenues, several problems emerged.[27] As there was no significant improvement in the ceded revenues, the Commission persistently demanded reforms to prevent contraband, fraud, and illicit production of monopolised articles. Despite these demands, bills amending and improving the Salt, Stamp and Tobacco laws, were either not passed by the Greek Chamber, or when they were passed they were not enforced by the government.[28] Throughout period, "smuggling was extensively carried on, and the abuse

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[24] Archives of CFB (Greece), *Law of Control.* 1898 ; A.Andreades, *Les Controles Financiers Internationaux*, Athens, 1925.

[25] Currants were the main item export consisting more than 50% of total exports of Greece prior to 1914. Although the Commission believed that the laws regulating the price was sufficient, the enforcement of the law was not seen satisfactory. *Report of the International Financial Commission*, CFB, V26, 1899, pp.166-185

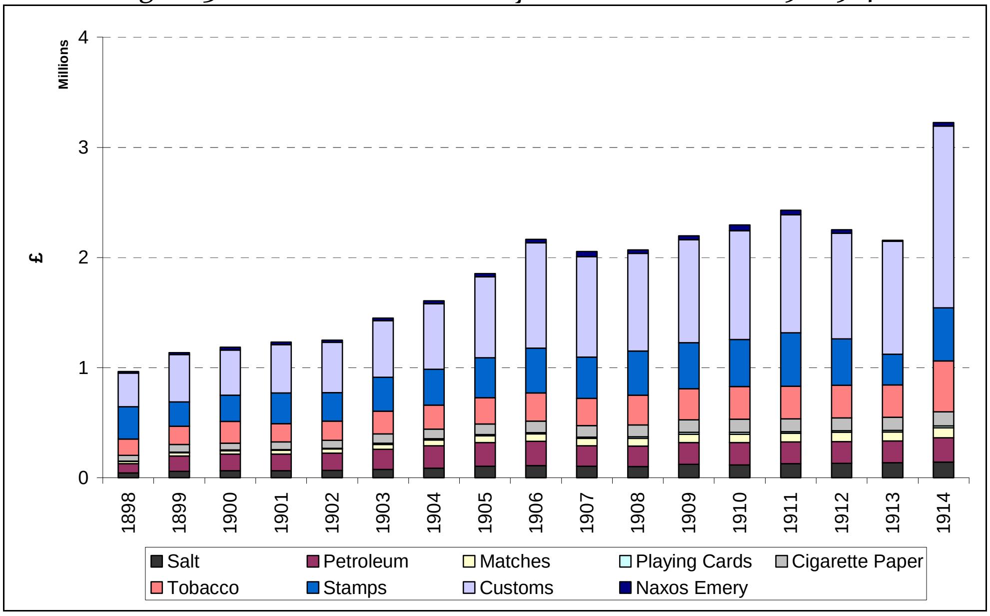
[26] Report of the International Financial Commission, CFB, V27, 1900, pp.154-155.

[27] Report of the International Financial Commission, CFB, V29, 1902, pp.158.

[28] CFB, V32, 1905, pp.196-197

was encouraged owing to the low salaries paid to the Customs and other officials".[29] On the other hand, Greek government was unwilling to pass the necessary reforms. The resistance of the government was partly due to the perception of the commission as an enemy of the Greek economy.[30] In a parallel way, the Greek Commission did not want to act as a trustee of the government. For instance, when the government planned to raise an internal loan with the help of the National Bank of Greece in order to reequip the Greek army, the Commission was hesitant to participate or facilitate the implementation of this loan, and did not want to take responsibility regarding its service.[31]

Figure 3. Revenues controlled by the Commission: 1898-1914

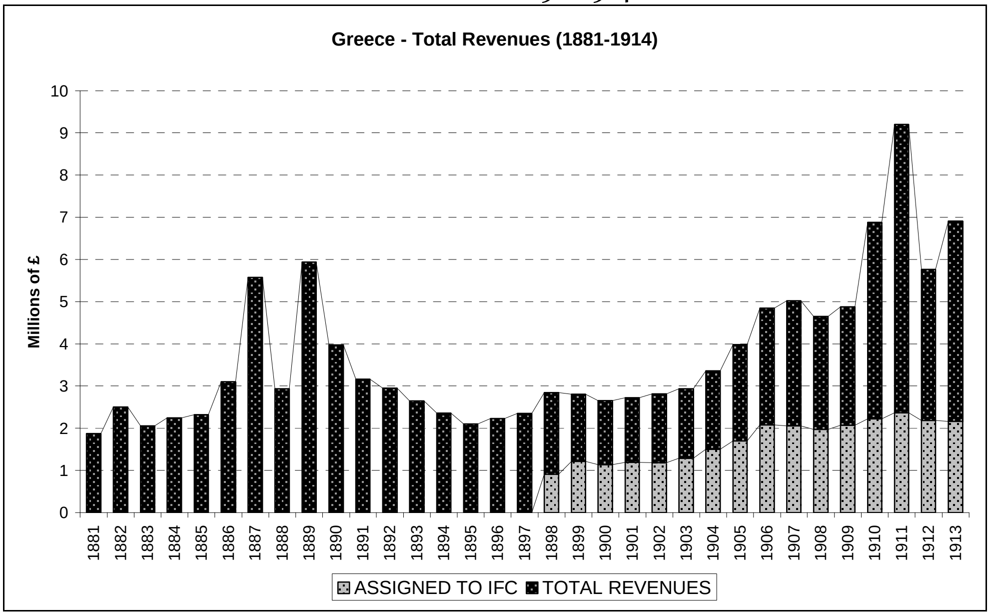


Source: Calculated from and the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1898-1915).

Overall, the Commission marked the post-1898 period, and the results were not wholly negative. The government in the later years introduced small changes in the stamp tax, or reorganisation of Piraeus customs. As seen from Figure 3 and Figure 4, the total revenues of the commission showed a considerable increase in a period of 15 years, and it constituted on average 40 per cent of total state revenues.

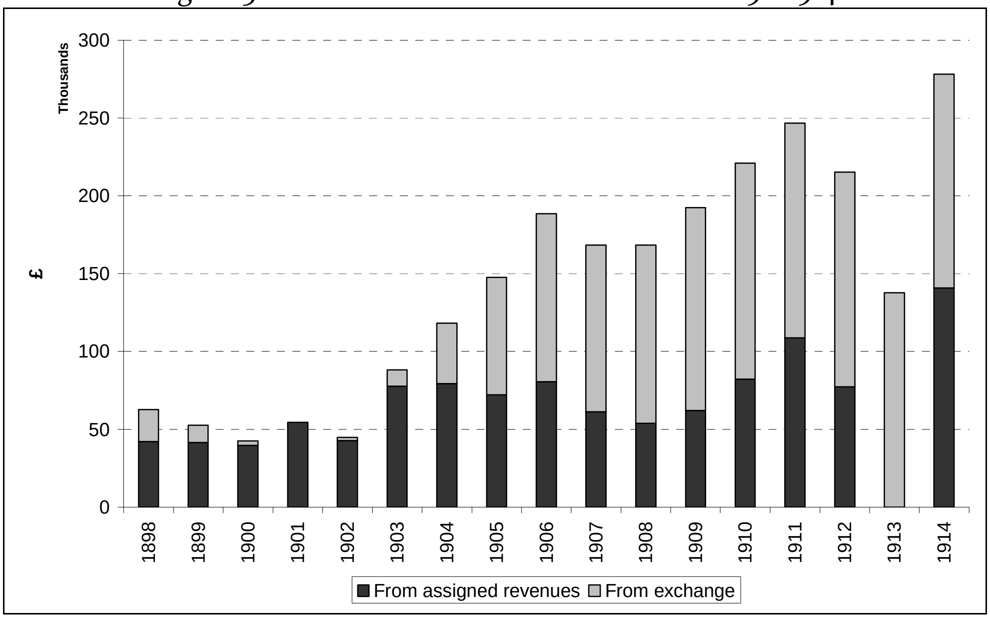
[29] CFB, V29, 1902, pp.145.
[30] CFB, V33, 1906, pp.190
[31] CFB, V34, 1907, pp.202216.

Figure 4. Revenues controlled by the Commission and total revenues of the state: 1898-1914



Source: Estimates are based on the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1898-1915), *Statesman's Yearbook* (1880-1914), J.A.Levandis (1944) *Greek Foreign Debt and the Great Powers 1821-1898*, Columbia University Press

Figure 5. Extra revenues of the Commission: 1898-1914



Source: Calculated from the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1898-1915).

It can be argued that similar to the Ottoman case, the Commission worked efficiently to administer the assigned revenues during this period. The hypothecated revenues from the monopolies and Piraeus customs steadily increased, and these were proportionally distributed to the bondholders.[32] More importantly, the Commission implemented important monetary reforms by restricting the forced loans in paper

[32] The Report of the International Financial Commission, CFB, V42 1915, pp.180.

drachmas between Greek government and National Bank of Greece. In fact the gains of the creditors from the withdrawal of excessive bank notes in circulation were sometimes more significant than the gains from assigned revenues (See Figure 5). The withdrawal of paper currency continued until 1910 when government switched to a gold-exchange standard and banknotes in circulation came to a desirable level.

3.3. Egypt

Egypt, despite being a semi-autonomous province, was *de jure* part of the Ottoman Empire until 1914. By a decree issued by the Porte in 1841, the Khedive was prevented to contract foreign loans without first getting permission from the Ottoman government. In 1858, under fiscal pressure, the Egyptian Khedive resorted to the method of issuing treasury bonds, and later these were followed by other foreign loans.

In order to understand the nature of the international control in Egypt it is important to point out first the formation of the *Mixed Courts* in 1875. Quite different from the Ottoman and Greek cases, in order to contract loan, the Egyptian Khedive had to pledge his personal assets and estates as security, hence the legal status of the loans was not clear. Were they loans to the Khedive, as the sole sovereign authority in Egypt, for public purposes and therefore similar to loans to governments? Or were they loans to the Khedive as the owner of vast estates, on a purely private basis? The Khedive used the money for both private and public purposes, and in doing so did not distinguish clearly between the two. As far as he was concerned, Egypt was within his personal control, and thus a loan to him was a loan to Egypt. This confusion between public and private sphere would cause difficulty in legal action.[33] Therefore in September 1875, before the establishment of the IFC, the Great Powers introduced the system of *Mixed Courts*. According to the system, foreigners were empowered to bring cases in these courts against the government, the administration, and the estates of the Khedive and of the members of his family, if an established private right was violated by an administrative act.

In the meanwhile, the bankruptcy of the Ottoman Empire and several other states in 1876 had a direct impact on the Egyptian credit abroad, and it was no longer possible to obtain new loans from the international financial markets. In April 1876, all debt amortisation and interest payments were suspended, and Egypt declared moratorium on its outstanding debt amounting almost £91 millions. This failure led to

[33] M. S. W. Hoyle "The Mixed Courts of Egypt 1875-1885" *Arab Law Quarterly*, Vol. 1, No. 4. (Aug., 1986), pp. 436-451. B. D. Cannon, "A Reassessment of Judicial Reform in Egypt, 1876-1891" *The International Journal of African Historical Studies*, Vol. 5, No. 1 (1972), pp. 51-74.

the decree of May 1876, by which "*The Caisse de la Dette Publique*" (hereafter the *Caisse*) was established.[34] Land taxes from Cairo, Alexandria and other Egyptian provinces, salt and tobacco taxes along with customs revenues were assigned to the *Caisse* in order to service various public loans. The Egyptian government committed itself neither to modify these revenues nor to contract any new loans without the consent of the creditors.[35] However this regulation evoked dissatisfaction among various groups of creditors given the status of Egyptian credit abroad. Therefore in July, 1876, the London Council of Foreign Bondholders applied to G.J.Goschen, member of the Council and a main banking house which acted as intermediary most of the Egyptian loans, to represent the bondholders' interests in Egypt. Goschen proceeded to Egypt together with M.Joubert, the representative of French syndicate and the director of the Banque de Paris et des Pays-Bas. Within a few weeks, Goschen and Joubert developed a plan of settlement, known as "Dual Control" which was accepted by the Khedive and embodied in a decree dated November 18, 1876.[36]

According to this regulation, in addition to the *Caisse*, a special administration of the railways and of the port of Alexandria was to be established, which would be placed under the direct control of a special commission of five members, two English, one French and two Egyptians. Moreover, two controllers-general would be appointed, who would exercise supervision over the entire fiscal administration of the country, one mainly responsible of expenditure and the other of revenues. The budget was still to be framed by the Khedive and his ministers, though with the assistance of controllers-general. Finally, the Daira-Sanieh administration, which was responsible of Khedive's personal lands in upper Egypt, would also be administered internationally. [37]

The political consequence of all these new regulations was the exclusion of the Khedive from the administration of Egyptian finances, and transition from the personal government of the Khedive to a government by an executive council whose leading members were foreigners. In fact, this situation led to outburst of violent riots that were supported by the Khedive and rich landowners to undermine the new regime. The outcome was a *coup d'etat*. To overcome the crisis, the six powers pressed the Porte to replace the existing Khedive, who was forced to abdicate in favour of his son.[38]

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[34] PP, 1876 [C.1484]

[35] T.A.Holland *The European Concert in the Eastern Question – A Collection of Treaties and Other Public Acts*, Oxford, 1885. For decrees issued after 1885, relevant issues of Reports of Corporation of Foreign Bondholders are used. Wynee, 1951, V.2., 587-588

[36] CFB, V.4, 1877, pp.21-22

[37] G.J. Goschen, *Egyptian Debt – Mission of G.J.Goschen*, 1876, London: Corporation of Foreign Bondholders. Lord Cromer *Modern Egypt,* V.1, London Macmillan, 1908: 25.

[38] Cromer, 1908, V1., p.128-146

After the succession of the new Khedive, the system of Dual Control was reinstated and the special administration established in connection with the railways, the Daira, and domains, the two controllers-general, and the commission of the public debt were maintained. The members of the commission were recognized as legal representatives of the foreign bondholders, and they had the right to sue the government before the Mixed Courts. [39] There were, however, signs of a religiously motivated military opposition to European Control, which can be regarded as part of a wider nationalist movement. As the main aim of this paper is to discuss and present the nature of international financial control in comparison to its Ottoman and Greek counterparts, we are not going into the details of historical events which at the end led to the military intervention of Britain. It is perhaps sufficient to maintain that at least one of the motivations behind this intervention was the fear that nationalist discontent could weaken the control held over the finances of the country by Britain and France. As Lord Cromer put it: "the origin of the Egyptian Question in its present phase was financial".[40] Upon the violent attacks towards Europeans in Alexandria, English forces occupied Egypt, in which France, the Ottoman Empire and other powers did not participate.[41]

Within a few months after the British took charge, Anglo-French Dual Control was abolished. The British Consul-General was given over-all authority and English advisers that were placed in the Egyptian ministries. However, the power of the British consuls to modify Egyptian financial affairs was restricted by the previous agreement with the bondholders, and by the powers of the *Caisse*. French government and bondholders refused to permit any reduction in the authority of the *Caisse*. Moreover, the separate administrations of railways, the Daira, and domains, on all of which France was represented, were maintained.[42]

During the period 1882-1914 a greater amount of capital came into the country, in the form of private investments –companies, banks, businesses, insurance etc. The

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[39] 1880 [C.2662] Egypt. No. 4 (1880). Despatch from Her Majesty's agent and Consul-General in Egypt forwarding the Lawof Liquidation. W.Kaufmann and H.Wallach *The Egyptian State and its relation to International Law*, 1892.pp.241. Wynne, 1951, V.2, p. 606-610, Fenn 1883, p.432, E. B. Abdel-Monem, *The public finances of modern Egypt : with special reference to the period 1876-1942*, Unpublished PhD Thesis, 1946, p.132. Crouchley, 1938, pp.124,. Cromer, 1908, V1., p.173

[40] Cromer, 1908, V1. p.11. A similar opinion is elaborated by, Richard A. Atkins, "The Origins of the Anglo-French Condominium in Egypt; 1875-1876", *Historian*, 36:2 (1974:Feb.) p.264

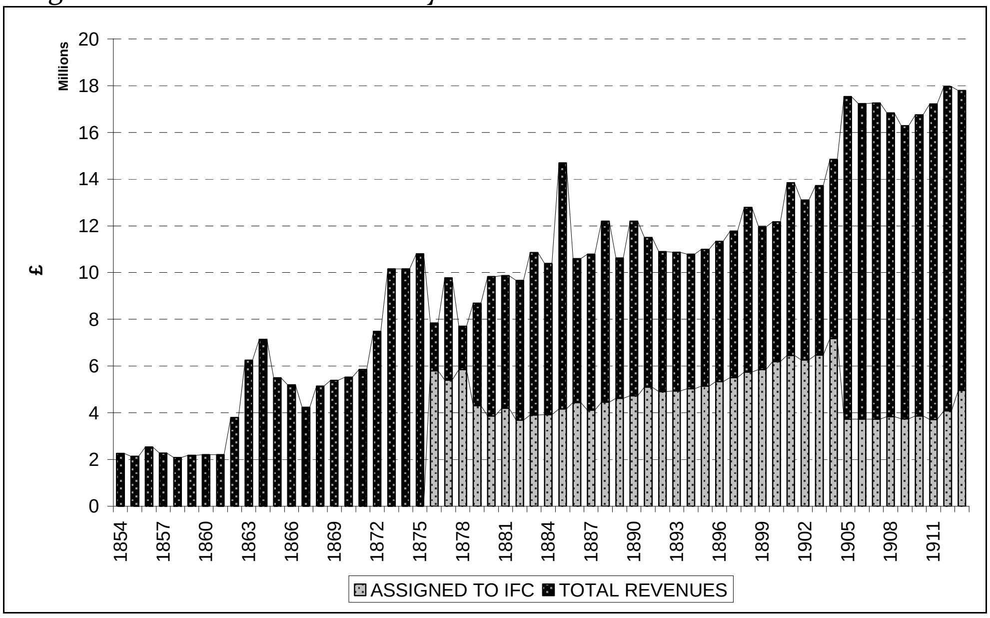
[41] Cromer, 1908, V1, p.175-375 documents the events which led to the British intervention, and negotiations took place between the powers in detail. Moreover see P. J. Cain "Character and imperialism: The British financial administration of Egypt, 1878-1914", *The Journal of Imperial and Commonwealth History*, 34:2, 2006, pp.177–200. A. S. White, *The expansion of Egypt under Anglo-Egyptian Condominium*, London 1899. A. G. Hopkins "The Victorians and Africa: A Reconsideration of the Occupation of Egypt, 1882" *The Journal of African History*, Vol. 27, No. 2, (1986), pp.363-391. A.L. Al-Sayyid Marsot, *A History of Egypt From the Arab Conquest to the Present*, Cambridge University Press, 2007, pp.66-97. D. A. Cameron *Egypt in the nineteenth century or Mehmet Ali and his successors until the British occupation in 1882*, London Smith, Elder & Co, 1898, pp.259-269. A.Milner, *England in Egypt*, London, 1892.

[42] Feis, 1972, p.391. Wynee, 1951, V.2, p.616-617.

economic effects of this capital inflow was reflected in, facilitating the construction of canals, roads and railroads. In the middle of the nineteenth century, a number of banks had already been established in Egypt, chiefly for negotiating loans to the government. In 1898 the National Bank of Egypt was established by the British government with the exclusive privilege of note issue. In 1902, the Agricultural Bank of Egypt was established to grant peasants small loans at a low interest rate. [43]

The final chief event of the period was the agreement between Britain and France in April 1904 (the *Entente Cordiale*), which introduced a change in constitution of the *Caisse*. After the agreement, the Egyptian government obtained full control of the reserve funds, leaving the *Caisse* a small reserve plus a working balance. The rigid model of balance was abandoned, and Egyptian government regained the full control over fiscal matters.[44] Although the *Caisse* was charged with the administration of all the loans; it possessed no power of initiative, and was unable to exercise any general or systematic control over policy as in the Ottoman and Greek cases.

Figure 6. Revenues controlled by the *Caisse* and total revenues of the state



Source: Estimates are based on the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1876-1915). *Annuaire Statistique de L'Egypte* (1909-1919), Ministere Des Finances, Department de la Statistique Generale, Le Caire, D.S.Landes (1969) *Bankers and Pashas – International Finance and Economic Imperialism in Egypt*, Harper; A.E.Crouchley (1938) *The Economic Development of Modern Egypt*, Longmans.

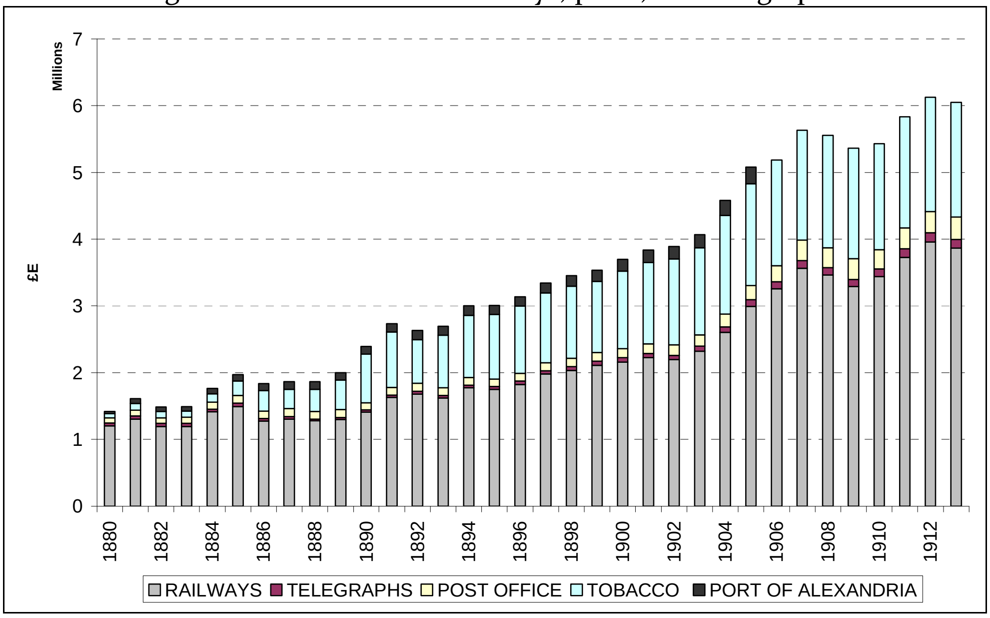
As seen from Figure 6, after the regulation of 1904, the share of revenues controlled by the *Caisse* in total revenues of the Egyptian state declined. Whereas before 1904 the

[43] Crouchley, 1938, p. 178-9

[44] *National Bank of Egypt 1898-1948*, Cairo, 1949, p.21, Crouchley, 1938, p.169-171, Feis, 1972, p.393. W. E. Brunyate "Egypt" *Journal of the Society of Comparative Legislation*, Vol. 7, No. 1. (1906), pp. 55-65. Feis,1972, p.395.

Caisse controlled on average 45 per cent of total state revenues, between 1904 and 1914 this share was around 20 per cent. In 1878, the control of the *Caisse* was most extensive and reached a level of 75 per cent of total state revenues. That year was also characterized by the suppression of peasantry and resistance in the rural sector towards the foreign control. It is important to note that the Egyptian *Caisse* was different from the Ottoman and Greek cases as it did not introduce any modification or improvement in the assigned revenue streams. Therefore, as far as the *Caisse* concerned, the increase represented an improvement in the efficiency of tax collection, rather than improvements in the production.

Figure 6. Revenues from railways, ports, and telegraphs.



Source: Calculated from the *Archives and Annual Reports of Corporation of Foreign Bondholders*, London (1876-1915). *Annuaire Statistique de L'Egypte* (1909-1919), Ministere Des Finances, Department de la Statistique Generale, Le Caire,

On the other hand, again unlike the Ottoman and Greek cases, the *Caisse* was not the only representation of foreign control in Egypt. Besides the revenues directly controlled by the *Caisse*, the administration of railways, telegraphs, post office, tobacco monopoly, and port of Alexandria was under the responsibility of British and French Dual Control. In this regard, the Dual Control was successful, and the net revenues from these items increased significantly from 1880 to 1914 (See Figure 6). If the aim is to see the extent of the foreign control, assigned revenues under the control of the *Caisse* together with the abovementioned revenues from railways, ports, telegraphs, post office and tobacco monopoly constituted 55 per cent of total state revenues. The successful management of these revenues was reflected in the regular payment of interest service for the rest of the period.

4. Concluding remarks

As aimed with the above presentation, creditors' way of dealing with moratoria through the establishment of IFCs in the Ottoman Empire, Greece and Egypt differed in various aspects. First of all the establishment process and initial agreements were conditioned by the bargaining powers of parties and historical context. These factors mostly determined the nature of organisational structure, reduction/unification of the outstanding debt and interest service, and finally the extent of the control. In this regard, the Ottoman Empire was the only case where the representatives of creditors were assigned with the right to introduce changes in the production of ceded revenues with the purpose of increasing tax revenues. In the case of Greece, the bondholders were excluded from the administration, and the role of diplomatic representatives was restricted only with supervision. Although this supervision implied the possibility of changing relevant laws to regulate the production, in practice the resistance of the Greek parliament made the modification almost impossible. The Egyptian case was perhaps a combination of these two in terms of administrative apparatus. Although most of the time the legal status of controllers was diplomatic, in reality they were well-known bankers and financiers who had strong ties with Egyptian financial affairs.

The main role of IFCs, reflected as a partial loss of fiscal sovereignty, was to transfer the surplus from hypothecated revenues to the bondholders in order to compensate their losses. In this regard, they were successful. They employed several instruments in order to increase the hypothecated revenues such as introducing monetary reforms, establishing international trade links, facilitating the construction of railways, acting as a trustee for future loans etc. Some of these reforms can be seen as progressive and perhaps marking the beginning of emergence of modern fiscal state in these countries. On the other hand, the local resistance in the form of contraband and banditry was a rule in all three cases rather than exception. The resistance perhaps was implicitly supported by local governments, which did not necessarily perceive IFCs as friendly institutions.

	Ottoman Empire (the Council)	Egypt (the *Caisse*)	Greece (the Commission)
Period	1882-1914	1876-1914	1898-1914
Share of controlled revenues in total state revenues	25%	55%	40%
Organisation	Bondholders	Bondholders and Diplomatic representatives	Diplomatic representatives
Supervision of production and tax collection	Yes	Yes	Yes
Direct control of tax collection	Yes	Yes	No
Administration of production	Yes	Yes	No
Acting as a trustee for future loans	Yes	Yes	No
Monetary reform	Introduction of small fractional coinage	Gold standard and establishment of issue bank	Restrictions on fiduciary currency, and gold-exchange standard
Establishing trade links	Yes	Yes	No
Construction of Railways, canals etc.	Yes	Yes	Yes