

Imperial Bank, the Imperial Bank of Persia, and the Discount and Loan Bank of Persia),² or branches of European banks (for example, Crédit Lyonnais, Deutsche Bank, Deutsche Orientbank, Wiener Bankverein, Banque d'Athènes, and Banco di Roma). Each of these banks had branches in the Ottoman Empire but none in Iran.³

Unlike the non-Muslim moneylenders and the European banks, the Muslim *tujjār* functioned under a unique condition: the dominant normative framework – Muslim law – prohibited the imposition of interest (*ribā*) on loans. In this context a number of questions arise. What was the deeper meaning for most Muslims of the contradiction between the practice of lending money and the Quranic prohibition? How did the Islamic religious courts (*mahkama*) deal with a financial system in which countless transactions (loans) bearing interest, often at extremely high rates, were in fact conducted? Against the backdrop of a normative prohibition, how were the special circumstances of intensive financial activity likely to affect the *tujjār*'s *modi operandi* in the credit market? To what degree did the tension between the prohibition and its constraints create conditions of uncertainty⁴ for the

lenders? Lastly, to what extent did this tension affect the rise of capitalism in the Ottoman Empire and Iran in the nineteenth century? These issues are at the core of the discussion in the present article.

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Between Prohibition and Constraint

Beyond the various approaches and differences of opinion on the question of *ribā*, most Sunni and Shi'i jurists (*fuqahā*), from the earliest generations of Islam to the present day, are of one mind: the imposition of *ribā* on loans is totally forbidden by the Quran, and is regarded as a grave sin.⁵ This abiding concept held by the *fuqahā* down through the ages is based on various verses in four different chapters (suras) of the Quran.⁶ The wording in these suras seems to reflect a gradual development in the stance regarding *ribā*, from a latent to a limited proscription and, finally, to a complete and absolute one. Verses 280–281 and 283–284 of sura 2, which apparently represent the later conception of *ribā*, constitute a response to questions that arose in this regard among the faithful in al-Madina, and it was these verses that determined the orthodox position:

Those who take usury will not rise up except like those maddened by Satan's touch. For they claim that trading is like usury, whereas Allah has made trading lawful and prohibited usury . . . those who revert [to

2 On the leading 'foreign-local' banks, see L.F. Tigranov, *Iz obshchestvenno-ekonomicheskikh otnoshenii v Persii* (St. Petersburg: Anker, 1909), pp. 153–157; L.A. Sobotsinskii, *Persia: Statistiko-ekonomicheskii ocherk* (St. Petersburg: Krovitskii, 1913), pp. 167–180; G.I. Ter-Gukasov, *Politicheskie i ekonomicheskie interesy Rossii v Persii* (St. Petersburg: Ministerstvo Finansov, 1916), pp. 112–116; Marvin L. Entner, *Russo-Persian. Commercial Relations, 1828–1914* (Gainesville, FL: University of Florida Press, 1965), pp. 39–80; Geoffrey Jones, *Banking and Empire in Iran* (Cambridge: Cambridge University Press, 1986), vol. 1, pp. 3–159; Christopher Clay, 'The Origins of Modern Banking in the Levant: The Branch Network of the Imperial Ottoman Bank, 1890–1914', *International Journal of Middle East Studies*, 26 (1994), pp. 589–614; Edhem Eldem, *A History of the Ottoman Bank* (Istanbul: Ottoman Bank Historical Research Center, 1999), pp. 29–335; André Autheman and J.A. Underwood, *The Imperial Ottoman Bank* (Istanbul: Ottoman Bank Archives and Research Centre, 2002).

3 For lists of foreign banks in Istanbul and in the provinces, see P. Marouche and G. Sarantis, *Annuaire Financier de Turquie* (Péra [Istanbul]: Levant Herald, 1912), pp. 138–143. On the role of the European banks in the Ottoman economy, see Jacques Thobie, 'European Banks in the Middle East', in Rondo E. Cameron et al. (eds.), *International Banking 1870–1914* (New York: Oxford University Press, 1991), pp. 406–440, 607–611; Jacques Thobie, 'Les banques étrangères à la fin de L'Empire ottoman', in Jacques Thobie and Salgur Kançal (eds.), *Système bancaire turc et réseaux financiers internationaux* (Paris: L'Harmattan, 1995), pp. 11–26; Elena Frangakis-Syrett, 'The Role of European Banks in the Ottoman Empire in the Second Half of the Nineteenth and Early Twentieth Centuries', in Alice Teichova, Ginette Kurgan-van Heutenryk and Dieter Ziegler (eds.), *Banking, Trade and Industry: Europe, America and Asia from the Thirteenth to the Twentieth Century* (Cambridge: Cambridge University Press, 1997), pp. 263–276; Philip L. Cottrell, 'A Survey of European Investment in Turkey, 1854–1914: Banks and the Finance of the State and Railway Construction', in Philip L. Cottrell, M.P. Fraser and J.L. Fraser (eds.), *East Meets West: Banking, Commerce and Investment in the Ottoman Empire* (Aldershot: Ashgate, 2008), pp. 59–95.

4 The term 'uncertainty' in economic theory was coined by Frank H. Knight, who contended that uncertainty in business relates to developments or events whose probability can be assessed or estimated only subjectively. This contrasts with 'risk', which relates to events that recurred in the past and whose incidence can be estimated. In the context of loans, the possibility that a borrower will go bankrupt and not repay the loan is a known risk that the lender can take into account (for instance

by obtaining guarantees and even by taking out insurance against this eventuality). By contrast, a new tax retroactively levied on loans that makes many loans unprofitable is a development in the uncertainty category, against which a lender is unable to take measures in advance. Knight notes that from the entrepreneur's standpoint there is an essential difference between risk and uncertainty. Whereas the entrepreneur can pass risk damage onto others, such as insurance companies, he is forced to deal with a situation of uncertainty and its concomitant outcomes on his own. In Knight's view, this latter distinction is central to understanding the nature of economic entrepreneurship. See Frank H. Knight, *Risk, Uncertainty and Profit* (Boston, MA: Houghton Mifflin, [1921] 1933), pp. 197–263; Mark Casson, *The Entrepreneur: An Economic Theory* (Totowa, NJ: Barnes & Noble, 1982), pp. 370–372.

5 The issue of *ribā* has been examined by numerous Muslim and non-Muslim scholars. Scores of studies devoted either wholly or partially to this subject have been published in recent decades. See, *inter alia*: David Santillana, *Instituzioni di diritto musulmano malichita con riguardo anche al sistema sciafita* (Rome: Istituto per l'Oriente, 1938), vol. 2, pp. 60–66; Shaikh Draz, 'L'usure en droit musulman', in Louis Milliot (ed.), *Travaux de la Semaine internationale de droit musulman (1951)* (Paris: Recueil Sirey, 1953), pp. 143–157; J. Schacht, 'Ribā', *Encyclopaedia of Islam*, 2nd ed., 6 (1995), pp. 491–493; Fazlur Rahman, 'Ribā and Interest', *Islamic Studies*, 3 (1964), pp. 1–43; Robert Brunschvig, 'Conceptions monétaires chez les juristes musulmans', *Arabica*, 14 (1967), pp. 113–143; Anwar Iqbal Qureshi, *Islam and the Theory of Interest* (Lahore: Muhammad Ashraf, n.d. [1947?]), pp. 44–122; M. Abu Zahra, *Buhuth fi al-ribā* (Kuwait: dar al-buhuth al-Islamiyya, 1970), pp. 53–54; Nur al-Din 'Atr, *al-Mu'amala al-masrifiyya wa al-ribāwiyya* (Beirut: Risala, 1977), pp. 53–80; M. Umer Chapra, *Towards a Just Monetary System* (Leicester: The Islamic Foundation, 1985), pp. 55–66; Nabii A. Saleh, *Unlawful Gain and Legitimate Profit in Islamic Law*, 2nd ed. (London: Graham & Trotman, 1992), pp. 11–39.

6 See verse 39, sura 30; verse 161, sura 4; verse 130, sura 3; and verses 280–284, sura 2. On the stages in the development of the Prophet Muhammad's position on *ribā*, see Schacht, 'Ribā', p. 491.

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