

## Contrast to the Traditional and Islamic Ethics with Modern Banking of Russia and Britain in Iran at Qajar Period (1845-1906 AD)

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**ABSTRACT:** The Nineteenth century was the beginning of World Trade. Meanwhile, Iran was in control of the Qajar rule. Iran's economy during this period was based on traditional farming and Traditional society with Islamic beliefs lead to a continuing tradition in Iran that in conflict with the era of global trade. On the other hand, political and geographical position of Iran in the Middle East, Caused increase interference and competition between the Russian and Britain governments in Iran. One of the main disputes between these governments were economic competitiveness so that, they were trying to establish bank in Iran. on one side, This competition between two superpowers and political Weakness of Iran's rulers in other hand, lead to the formation of large economic concession in 19th century. So that, traditional economy of Iran was bankrupted because it did not compete with European products. And exchange model of money and traditional bankers (changers) of Iran had not fiscal power to compete with the Imperial Bank of Britain and Russian banks. Exchange method in the traditional economy of Iran was based on Islamic traditions such as One fifth (Khoms), Tribute (Zakat), Prohibition of usury (Mane Reba) and etc. but Exchange method of modern banks belonged to Britain and Russia based on more profits and attracts capital flows. This confrontation led to deprivation of Trust between people of Iran to modern banking and resistance of community groups to positive developments in modern banking.

**Key words:** Iran, Traditional Economy, Changers, Modern Banking, Nineteenth Century

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### INTRODUCTION

Bank has been an institution for trading with money and credit, accepting deposits and lending, respectively. Bank from a Latin word meaning, the meaning behind the bench or counter the Italians keep the money paid to the exchange.

Bank, to the modern concept, was formed after the industrial revolution in Europe and the transfer of funds, issuing drafts (Barat), preserving capital of people to throw it in the way of economic growth and development, allocation of credit to the people and the Publishing notes (Mint) (Haj Sayyah Mahalati, 1968: 209-212). Banks because of the economic sectors has various forms, including central banks, commercial and specialized government or private sector capital that will be created.

#### 1) The Qajar's Period (19th century)

With the fall of the Safavids, which led to confusion and tribal wars, the boom began to decline in trade and exchange in Iran Territory; But after coming the Qajars to power in the Nineteenth century and establishment of central government and end tribal wars and Revival of security Under a single government, we can see that the trade flourished again. The British fleet in the Persian Gulf and Russia and the Ottoman wars in 1304/1877, and the abolition of duty through the Caucasus, Iran was due to trade routes and, under a single government increased to five or Sixtuple rather than the years before (Issawi 1984: pp.125-128). But, these enhance of trade relations did not mean that, Iran's trade progressed

because Iran was the plaything of trade competition between two political powers of Great Britain and Russia (Amin al Dawla, 1963, pp.134-135). Iran's traditional economy cannot compete with modern political economy colonial sentiment in Russia, especially after the treaties of Golestan and Turkmanchay (1818-1828 AD) which led to separation of the northern parts of the commercial zone of Iran and increased the influence into Russia and Russian goods to 5% decline Tariff (The customs), the goods were shipped to Iran's Market. at this terrible condition, Great Britain also reduced the amount of political pressure Tariff of his country and its artifacts to fill the markets of Iran and the Iranian Transactions reached from 2500000 lira in 1215/1800 AD to Fourfold in 1331/1913 (Issawi, 1362, pp.198-203). Business growth, led to fifteen Kror Tomans (Each kror was the equivalent of 500000 Tomans) of Iran's Liquidity annually dismissed and sent out of Iran (Afzal al Molk, 1987: pp.154-156). In spite of, the success of the Qajar state in security and internal stability problems, but because the Europeans were quite weak, with commercial contracts with Western countries, the independence of Iran's trade was in danger.

Meanwhile, investors of these powers were active in various fields of commercial and participated in industrial and mining, finance and banking of Iran. Overall growth of universal trade in Iran did not positive advantage for Iran economy because its markets had the small capacity for business and any least of the elementary office markets, profits turn into losses. Some of Sarraf (Traditional changers) of

Iran dominated on the money market with a backward system; at this period, Iranian bourse was highly fragmented and was not specialized; European companies, who want to profit more from a closer surveillance of their trade, were encountered with several problems in various fields such as transportation and conversion of the money from Iran. Also, Iranian merchants because of their traditional barriers had many obstacles with other countries which it was the result of the old exchange in Iran. For this reason, merchants, capitalists, Iranian and European companies and institutions realized the need to create a new financial institution, which named "bank".

For the first time, Europeans in the 1281/1864, the bank proposed by the Frenchman Jean Savalan, to Mirza Mahdi Khan Naser al-Molk (Teimuri, 1954: pp.176-179). Then, Arrange Parisian institute, Won concession of banking establishment in 1283/1886, arise a bank in Iran. But, negotiations postponed because of the Iranian government had not had and refused sufficient guarantees to maintain bank deposits against the arbitrary actions of rulers (Issawi, 1984: pp. 539-543). The bank thought it was common between capitalists and intellectuals of Iran: Mirza Malcolm Khan wrote a dissertation about the bank and Haj Mohammad Amin al-zarb (Head of mint) emphasized in the necessity and importance

To establish a bank, in a letter to the Shah (king) at 1296/1878. But this proposal, were remained inconclusive by Opposing effects of the courtiers and princes, and eventually multi-capitalist Iranian followed banking. They decided to form with the participation of French investors and the Ottoman Bank, Bank of Iran and Afghanistan, for add in a bowl all of the funds that will flow between Iran and Europe, in 1302/1885. But it was not practical because the French did not make this investment. Finally, the British were able to establish Iran's first bank. This may lead to their success because they had most trade relations with Iran and they wanted to facilitate bilateral trade.

## **2) New Oriental Bank (New Union Bank)**

This bank was an English institution which had a center of London and its activity areas were in some Asian countries (Fateh: 78-81; Curzon, 1984: pp.268-274). But, this bank did not stand more than two years and in 1305/1888. It sold furniture and its branches for the twenty thousand pound to the Imperial Bank and ended up to its works.

**A) Imperial Bank:** It was First State Bank of Iran which published and stroked money. Based on patents in 1888 AD, Establishment and management of this bank for sixty years were assigned to Baron

Julius Reuter, a British citizen of German Jewish descent who had accepted Christianity. He gained enormous wealth, and, in 1289/1872, paid huge bribes to the courtiers of Shah, was achieved to earn points and monopolies. According to this concession, it was entrusted to his charge the construction of railways, dams, operation of mines, forests, land, factories, banks established in Iran for seventy years. Tsarist Russia, opposed in these concession and supported of the protesting princes and priests and people to these points and thus, the king was forced to cancel it in 1290/1873. Reuter for seventeen years, complained to British government for their rights And accused the government of Iran to Lack of loyalty. Finally, with the exemption Rabino, Reuter representative in Iran, and the ongoing efforts of the British minister in Iran Sir Dramand Wolf got and received points to establish the Imperial Bank, instead of canceled earlier concession. The patents in the first quarter, Shah were awarded to Reuter and his partners to establish a public database called "Imperial Bank" for sixty years (Teimuri, 1954: pp.191-195). In the second quarter, according to the contract, the capital of this bank was intended eight Krore Lira. In the third quarter, it was granted to the bank exclusive right for coincide bill backed by gold. This meant that, silver were replaced of gold practically. According to Chapter V, Bank was sponsored by government of Iran, and was exempt from any tax. According to Chapter VI, the bank was obliged to take into account special funds in its treasury and paid it to government of Iran and takes its payment inside or outside of Iran (Kazemzadeh, 1976: pp.344). Under Chapter VII, the bank was obliged to pay 6% of annual net profit to the Iranian government and provided not less than four thousand lira. The chapters eleven and twelve, declared the Iranian government was assigned utilization rate of all the mines, except gold and silver and jewels, to the Reuter. And use of all land mines for the construction of the bank was declared free (Shuster, 1966: pp.347). The government of Iran would receive 16% of the mining interests. The Iranian government was obliged to return the earlier bond rating to Reuter (Jones, 1986: pp.216-219). There are also bank accepted the observer from the Iranian government. In addition, patents mentioned in the amount of forty thousand pound loan to be paid to the Iranian government. Shah, during a trip to London in (1306/1889), signed appendix IV patent of bank and Reuter acquired the right to transfer any of the patents. Reuter after winning score in 1306/1889, founded a company composed of British capitalists, who were famous bankers, for the establishment of the Imperial Bank with a capital of four million pounds and its president assumed to William Sykes from the Far East Company (Wright, 1983: pp.160). Imperial Bank, to ensure the

profitability established its branches in Iran and its exchange centers were never more than 25 branches. Imperial Bank was in charge of the duties Central Bank of Iran, and gradually it had been accredited institution, a center of finance income between countries. This bank will be kept in special accounts the treasury funds and it played the major role in receipt of tax revenues and government spending in cities and abroad, government loans, and buy silver to mint coins and etc. Imperial bank was committed to debt payments to the Iranian government as the State bank of Iran. But, with increased power and history of bank lending as a tool for intervening in political affairs

### **3) Financial and political role of Russia and its Bank in Iran**

The Russia banks were established in 1308/1890, shortly after the Imperial Bank. Jacques Polyakov, the citizens of Russia, had offered establishment of it to the Shah. Shah, who had a keen interest to Polyakov, permitted to him for engaging in the company of mortgage transactions and banking (Entner, 1991: 91-97). Under the provisions of patents, shah allowed to Jacques Polyakov, general councilor of Iran, and others. Based on first quarter it established debt Corporation to mortgage credit and a sales shop, with a validity of 75 years. according second point, company name was association of Iranian borrowings and Its purpose was lend against any kind of valuable property, other than immovable property, such as Europe and the establishment of the auction in Iran. At the Article III, Iran government should be responsible for the protection of the shop and the company's movable and immovable properties (Mostofi, 2006, pp. 52-53). Pvelyakov sold part of the shares to the Russian and Belgian investors and institutions began to work with an initial capital of two Krore and two hundred and fifty thousand manat equivalent to the estimated six hundred dollars in gold coin money (Jamalzadeh, 1957: 38).

This foundation of institution at the beginning, did not any conflict with Iran and Britain financial Interests; because its Commercial purposes was limited and its sphere was small loans, jewelry and home goods and furniture business. Its main branch was located in Dar al-khlafeh Tehran and other branches in the center was located in the area of Russian influence in the cities of Tabriz, Urmia, Julfa, Rasht, Anzali, the cities of Mazandaran province, Hamedan, Kermanshah, Qazvin, Isfahan, Mashhad, Mashhad, Quchan and Zabul (Pavlovich and Ayransky, 1951: pp.31). According Pvelyakov request, the Iranian government in 1309, to official declared the name of this institution, borrowing from the Bank changed into debt to the Russian government. In 1311/1892A.C,

because of lack of profitability of Russian bank, its representative in Iran, suggested to dissolve its activities; But the Russian government in all fields, including banks, had to compete with Great Britain, prevent of its close and intervened in the country's Ministry of Finance, and transferred all its shares to the Bank of Petersburg. Since then, Russian bank were borrowing to the Russian government and has been implement political objectives and economic objectives were overshadowed by its political goals. Whenever Russian intervention in Iran was more, the bank's capital will be increased (Foran, 2005: pp.180-183). For coordination between government policy and the Bank of Russia, the Russian Embassy as a Dependent Commerce in Tehran assumed the Bank responsibility and related consultations in the provinces were at the disposal of its assets until it becomes necessary. Although the borrowing bank began its work with the mortgage transaction, but, in practice, paid indifferent issues; Including, insurance and transportation types rated at 1309 points in 1311 to make way between Anzali - Qazvin, Tehran, Hamedan road points created in 1314/1897 and points to a road, Tabriz, Qazvin in 1319/1902 (National Bank of Iran, 1979: pp.45).

Other objectives of the borrowing bank managers were the promotion of Russian goods and materials needed in Iran, from Russia to Iran. This bank increased the volume of trade between two countries, it deals with Iran in a way that complements the Russian economy may lead. Russian Bank, in fact, was conflicted with Tabriz and Mashhad keep a competitor who had traded with Russia and was also competed with foreign trade with Eastern European countries. But because the main purpose of the activity was political, not economic, did not lead to a danger for traditional bankers in these areas. The Russian Bank , gave loans with easy terms to statesmen, politicians, businessmen and prominent individuals, for achieving their political goals; This will grant loans for different purposes, including paying, with resilience to pressure debtors to known and cunning of the possibility, it provide critical intervention for government of Tsar's court and its centers. It escalated intervention of Russia representatives in the Iranian lives and prepared the materials to separate northern parts of Iran. it was not successful to the bank's policy because of their total capital was spent on mortgage deals and thirty million manat, and remained only three million in the bank account . It had different behavior against the Iranian government and the financial problems of government borrowing at different times. when Talbot contract was canceled and the government fiscal deficit and economic crisis continued, Russian bank gave in 1318/1900, for a victory over rivals

(Great Britain and the Imperial Bank), a loan of \$ 000, 500, 22 Manat, with profit 5% to seventy-five year period, customs revenues in exchange for the north, the Iranian government's confirmations.

Received successive loans from Russian banks, led to increased Russian continuity intervened to the private part of the Iranian government. Expansionist policies of the bank continued until after the collapse of Tsarist rule, pursuant to article 19 Convention in 1921 between Iran and the Soviet Union, the Russian bank was assigned to the Iranian nation. Economic measures were not successful because all branches of Russian bank in its capital and real estate became the property that the mortgage was made to capture and, consequently, his capital would decline and the constant conflict with the people and the lack of public acceptance. Russian government representatives had influenced on the king, courtiers, politicians and clergymen, through giving loans and were dominant On the Iranian government's policies (Mahboubi Ardekani, 1979). They had consisted numerous business centers in Iran such as Thomanyans business center which was the first businesses of money exchange and banking business in Iran. Iran's trade growth, led to spread the Iranian reputable business activities. The Iranian traders had competed with Imperial bank and Russian business centers and sometimes, they could overcome on their Powerful competitors. But for reasons such as lack of government support, lack of codified rules of banking in Iran, lack of proper expertise and insight and scattering in investment banking and other institutions, had an important achievement and, after some partial and temporary success, but eventually were forced to retreat against the Imperial Bank.

#### **4) The Coagulation process of customs agreement with Russia**

Iran's Customs Administration was from Fafavids period (15th century A.C) till year of 1317 AH /1899 as a contractor and was not applied or fixed any rules and regulations for customs duty. Usually, person who wanted to act as contractor. Amin al- Dawlah during his short Chancellery decided to organize and costumed of many people to hire specialists from Europe. Therefore, the Belgian people as they are hired from a neutral country but, these three people came to Iran after the overthrow of Amin Dawla and the Russians' own valet who, like Amin -al Sultan (Mostowfi, 2006: pp.143-151). This northern neighbor finding opportunities of the weak institutional Shah, and Amin al-Sultan impurities and ignored the masses for using of Belgians and others. Customs agreement between Iran and Russia dominated the ring completes the all-Russia on Iran. Russians already formed Brigade and bank borrowing, had been

provided the executive power and the necessary capital to develop its influence in Iran, now deal with the economic dominance - Political discovered on Iran. Russia's trade with Iran took an upward trend since the contract because it was so arranged that it can provide benefits to Russians. Russians with their customs agreement became Iran as economical dependent country and it became bankrupt completely. Iran was become producing raw materials needed by the Russians. Instead, Iran was the importer and consumer goods and industrial production from Russia.

#### **CONCLUSION**

Merchants and traders were assist the evolution of two species of Western societies during the era of urbanization, industrialization and agriculture: One way of promoting growth and trade, transportation, banking, New Industry, and other ways to change the longstanding relations of feudal power and the establishment of democracy or bourgeois democracy. However, the owners of capital had not identical role in the political and economic developments in all Western countries. In England and France, merchants and traders have played major role in determining the course of historical developments and move society towards industrial capitalism and democracy. Big business of Iran in a critical period of history had taken efforts to class their historic mission in the course of social change and community realize the semi-feudal and semi-Asian Persian era of capitalism and the "Urban - Industrial" to the new drive. But the efforts of groups inside Iran, influenced of Iran's strategic positions have been incapable of playing an independent role.

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