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**FINANCE AND EMPIRE: 'GENTLEMANLY CAPITALISM'
IN BRITAIN'S OCCUPATION OF EGYPT**

BY

JARED IACOLUCCI

A Master's Thesis submitted to the Graduate Faculty in Middle Eastern Studies in partial fulfillment of the requirements for the degree of Master of Arts, the City University of New York.

2014

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This manuscript has been read and accepted by the Graduate Faculty in Middle Eastern Studies in satisfaction of the requirements for the degree of Master of Arts.

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THE CITY UNIVERSITY OF NEW YORK

Abstract

FINANCE AND EMPIRE: ‘GENTLEMANLY CAPITALISM’
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by

Jared Iacolucci

Advisers: Professor Elena Frangakis-Syrett and Professor Simon Davis

Toward the beginning of the nineteenth century, Egypt was being led by Mehmed Ali, a reformer eager to build his own dynastic state separate from the Ottoman Empire. Despite his achievements, by the end of the nineteenth century Egypt had been occupied by Great Britain for nearly two decades. This paper will examine the developments in Egypt and Great Britain that drew the two together, with particular emphasis on the growth and expansion of international finance into foreign government lending. As finance became an increasingly profitable career in Britain, financiers entered the gentlemanly class and socialized with the political elite. Government policy subsequently reflected the aims of both the political and financial elite under a newly defined national interest. As the national interest was threatened—by financial crisis in Egypt and geopolitical threats in Europe—Britain was drawn into more direct involvement with the purchase of Khedive Ismail’s Suez Canal Company Shares under Prime Minister Disraeli and the invasion and occupation of Egypt under Prime Minister Gladstone, who were both linked with financiers and members of the gentlemanly class. Originally intended to be temporary, the occupation would last 70 years and help institutionalize racial and cultural aspects of British imperialism.

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Introduction

The nineteenth century was a period of dynamic and dramatic change in Egypt. The turn of the century saw Ottoman removal of Napoleon's forces with assistance from Great Britain. By the end of the century, Egypt had been occupied by Great Britain for almost two decades. In the interim, a dynasty begun by an Albanian-Ottoman administrator carved an autonomous province out of the Ottoman Empire, attempted to establish its own empire in the Nile Valley and the Levant, and developed the institutional and economic foundations of a modern state. In a century filled with such dramatic political shifts, social changes were no less important.¹ This study, however, is primarily interested in the economic conditions of the Egyptian state, the penetration of European capital, and the relationship between finance and imperialism.

Although Mehmed Ali and his dynasty achieved considerable autonomy for Egypt, the territory was still nominally an Ottoman province. The history of Egypt in the nineteenth century is therefore linked to the history of the Ottoman Empire as a whole; yet changes in Egypt's social and economic fabric led to different outcomes. There are similarities that stand out when the two are examined together: both Cairo and the Porte pursued economic and political reform in attempts to consolidate power; both utilized foreign loans to finance development projects; and both accrued massive foreign debt that prompted foreign intervention.² These general similarities should not be taken as evidence that the experiences of

¹See Khaled Fahmy, *All the Pasha's Men: Mehmed Ali, His Army, and the Making of Modern Egypt* (Cairo: American University in Cairo Press, 2002); Ehud Toledano, "Social and Economic Change in the Long Nineteenth Century," in *The Cambridge History of Egypt*, ed. M.W. Daly (Cambridge: Cambridge University Press, 1998); Timothy Mitchell, *Colonising Egypt* (Berkeley: University of California Press, 1991).

² Donald Quataert, "The Age of Reforms, 1812-1914" in *An Economic and Social History of the Ottoman Empire, 1300-1914*, Vol. 2, ed. Halil Inalcik and Donald Quataert (Cambridge: Cambridge University Press, 1997), 759-943; Emmanuel Wallerstein, Hale Decdeli, and Resat Kasaba, "The Incorporation of the Ottoman Empire into the World Economy," in *The Ottoman Empire and the World Economy*, ed. Huri Islamoglu-Inan (Cambridge: Cambridge University Press, 2004), 88-97.

both were identical. Nevertheless, encroaching European financial penetration was, in both cases, a forerunner for more direct forms of intervention, albeit manifesting in different ways.

European intervention in the Ottoman Empire and Egypt occurred in response to state bankruptcies during the 1870s brought on by a combination of ineffective financial administration, a worldwide collapse in commodity prices, and predatory lending by European financiers. Moreover, both bankruptcies led to bondholder intervention in government affairs. Yet Egypt would lose control over its own affairs, becoming a “veiled protectorate” of the British Empire, while the Ottoman Empire was still an independent entity and experienced relatively minor intervention from the European powers in the form of the Ottoman Public Debt Administration. Was international bondholder intervention in Egypt ineffective enough to prompt Britain into unilateral action? Why did the British government decide that Egypt was worthy of direct intervention while the Ottoman Empire merely needed financial guidance? Why did Great Britain have an interest in Egypt in ways different from the Ottoman Empire as a whole?

For Great Britain, the most important consideration in the second half of the nineteenth century was the Eastern Question, or how to approach the threat posed by simultaneous Russian expansion and Ottoman contraction in the Balkans and Asia. Although Great Britain had sought to preserve the integrity of the Ottoman Empire in the face of Russian expansion throughout the nineteenth century,³ the British government seized control of one of the Porte’s nominal provinces and finished the process of amputation begun by Mehmed Ali. Britain’s invasion and occupation of Egypt beginning in 1882 has most often been explained as a measure protecting the Suez Canal, the waterway opened only thirteen years before and the quickest route from

³ See Milos Kovic, *Disraeli and the Eastern Question* (Oxford: Oxford University Press, 2011).

Europe to India.⁴ Others have ascribed the British occupation to official action by the government on behalf of the bondholders of Egyptian debt.⁵ As is often the case, the truth lies somewhere in the middle.

A recent attempt at finding a middle ground between the various theories of imperialism identifies a class of gentlemanly capitalists, particularly financiers involved in government loans and likeminded government officials, as the progenitors and agents of British imperialism.⁶ Their preference for foreign government bonds over commercial and industrial interests meant that returns on investment were the focus, not development. Rather than identifying the concern for imperial security or financial solvency in isolation from one another, this theory explains imperial action as a result of the confluence of the elite constituencies in contemporary British policy. Applied to Egypt, the theory is successful in showing that one does not need to give precedence to either strategic or financial goals since the two are completely entwined. The British government's purchase of Khedive Ismail's shares of the Suez Canal Company is an informative representation of gentlemanly capitalism at work. The Suez Canal was undoubtedly a strategic and economic asset to Great Britain as a means of protecting and trading with India; by purchasing the Khedive's shares, Britain had gained a financial asset (and potential liability) as well.

In simple terms, this theory of imperialism describes a "gentlemanly elite who promoted and served capitalist interests" both at home and abroad.⁷ Who comprised the gentlemanly elite and were they active in Egypt? What is the precipitate combination of interest and action by

⁴ See Lord Cromer, *Modern Egypt* (New York: The MacMillan Company, 1908); Robert Tignor, *Modernization and British Colonial Rule in Egypt, 1882-1914* (Princeton: Princeton University Press, 1966); Ronald Robinson and John Gallagher with Alice Denny, *Africa and the Victorians: the Climax of Imperialism* (Garden City, NY: Doubleday, 1968).

⁵ J.A. Hobson, *Imperialism: a Study* (New York: Cosimo Classics, 2005).

⁶ P.J. Cain and A.G. Hopkins, *British Imperialism: 1688-2000* (Edinburgh: Pearson Education Limited, 2002).

⁷ *Ibid.*, 9.

financiers, merchants, manufacturers, and politicians in British imperialism in the mid-to-late nineteenth century? In order to answer these questions, the next section will provide a brief historical survey of the development and expansion of British industry and overseas commerce and finance in Ottoman domains. This section will also examine the changing social fabric of Great Britain in the nineteenth century which allowed for a new class of gentlemen to emerge before turning to specific examples of gentlemanly capitalists.

After examining developments in Great Britain, economic and political developments in Egypt during the nineteenth century will be analyzed. Particular focus will be placed on the development of a state monopoly system for funding state-building projects and the dismantling of that system within several decades. Why did the state monopoly system fail? Who benefitted from liberalized trade in Egypt? What unforeseen consequences did trade liberalization have for the Egyptian state? As noted above, Egyptian financial insolvency occurred at the same time as Ottoman bankruptcy and therefore some comparisons must be made between the two cases.

The final section will examine the rapid changes in Anglo-Egyptian relations from 1875-1885. Over the course of this decade Egypt lost its stake in the Suez Canal Company, lost control of its finances, and, ultimately, lost its autonomy. Meanwhile, the British government purchased a stake in a private company to whose founding it had originally been opposed, pressured the Porte to depose the sometimes rigid Khedive Ismail, and, eventually, invaded and occupied Egypt. Herein lies the main question: why did Great Britain invade and occupy Egypt? Instead of relying on a single primary motive—whether financial, commercial, or strategic—this analysis will show that these motives were interrelated and formed an interest that originated with and was advanced by gentlemanly capitalists in Great Britain, before finally being institutionalized by their contemporary elites in politics and the state bureaucracy. The

occupation of Egypt is only one manifestation of this interest; international cooperation in the Ottoman PDA was another. Although the British imperial ruling castes were not identical in social or occupational character, finance capitalism was a unifying interest out of which late nineteenth century imperialism grew. Foreign policy in general and the occupation in particular were not motivated by a desire to protect bondholder interests; however, bondholder interests were identical to strategic interests because they were crafted within the framework of gentlemanly capitalism.

Chapter 1 - The 19th Century: Empire, Free Trade, and Finance

Nineteenth century Britain, like contemporary Egypt, underwent extensive political, economic, and social change. Of particular interest to this study is the way in which a dynamic economic system affected change in the social and political life in Great Britain and how those changes manifested themselves in state policy. The rise of a new financial and political order was accompanied by an alignment of financial and political interests into one national interest as defined by gentlemanly capitalists. This alignment is evidenced by the state's responses to domestic economic crises and its diplomacy, particularly in regions outside of direct British control.

The Glorious Revolution of 1688 ushered in a new financial system in which the government could accumulate debt in large amounts.⁸ The somewhat easy and reliable flow of capital to the state was encouraged by landowners'—and later, bankers'—investments in government debt, which gave them a financial stake in the well-being of the political system. The potential for these moneyed men to corrupt politics in pursuit of their own interest was something to which seventeenth and eighteenth century commentators alluded frequently. According to Henry St. John, Viscount Bolingbroke, “great companies [were] created, the pretended servants, but in many respects the real masters of every administration.”⁹ While there may have been some truth to that statement around the turn of the eighteenth century,

⁸ P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (New York: St. Martin's Press, 1967), 6-12.

⁹ Henry St. John Bolingbroke, *Some reflections on the present State of the Nation*, in *The Works of the Right Honourable Henry St. John, Lord Viscount Bolingbroke*, iii (1749) quoted in Dickson, *Financial Revolution*, 18.

corporations like the East India Company and the Bank of England were discredited as bondholders by the time Bolingbroke was writing.¹⁰

In the early nineteenth century, financiers were busy investing in railways and issuing foreign loans while the traditional agricultural sector of the economy was about to experience long-term contraction. The landowning aristocracy saw a marked decline in their economic preeminence following the repeal of the Corn Laws in 1846 during the government of Sir Robert Peel.¹¹ William Gladstone, future Prime Minister during the invasion and occupation of Egypt and free trade enthusiast, had begun his career in Parliament fourteen years earlier and was a protégé to Sir Robert Peel.¹² Unlike the free trade Peelites, future Prime Minister Benjamin Disraeli was in favor of the protectionist Corn Laws and continued to support tariffs that would benefit the traditional landowning elite.¹³ Later in their careers, the two statesmen would quarrel over the course of action taken in Egypt, a result of free trade and the creation of conditions where political intervention became necessary.¹⁴

The free trade movement beginning in the 1840s altered the domestic economic reality in Great Britain in favor of commercial and financial interests. Even before the Corn Laws had been repealed a policy of encouraging free trade agreements with foreign governments was already in place. For instance, the Treaty of Balta Liman of 1838 and the Treaty of London in 1840, negotiated with the Ottoman Empire and Egypt, established free trade agreements that created new markets for British manufactured goods.¹⁵ Other agreements were made with Persia

¹⁰ E.L. Hargreaves, *The National Debt* (1933. Reprint, Clifton, NJ: Augustus M. Kelley, 1966), 10-11.

¹¹ Cain and Hopkins, *British Imperialism*, 67.

¹² Roy Jenkins, *Gladstone: A Biography* (New York: Random House, 1995), 28-50.

¹³ P.R. Ghosh, "Disraelian Conservatism: A Financial Approach," *The English History Review* 99, no. 391 (Apr. 1984): 268-280, accessed October 17, 2013, <http://www.jstor.org/stable/568981>.

¹⁴ See John Gallagher and Ronald Robinson, "The Imperialism of Free Trade," *The Economic History Review*, New Series 6, no. 1 (1953).

¹⁵ Ahmed Abdel Rahim Mustafa, "The Breakdown of the Monopoly System in Egypt after the 1840s," in *Political and Social Change in Modern Egypt*, ed. Peter Holt (London: Oxford University Press, 1968), 292-294.

in 1836 and Japan in 1858. In China, the inability to open and liberalize trade led to the Opium Wars of 1840 and 1857.¹⁶ The government was clearly willing to authorize state power either through international treaty agreements or military action in pursuit of economic goals in the middle of the nineteenth century. What form state action took depended on the circumstances and was certainly open for debate.

Exporting manufactured goods and importing raw materials was undoubtedly one of the main goals of Victorian politicians. Commercial and industrial ventures required capital from investors, a role which was originally filled by the landowning aristocracy and later by industrial financiers. The investments and debts of the aristocracy came to be managed increasingly by bankers in the nineteenth century while the revenues from the agricultural economy simultaneously decreased. These dual processes encouraged the entanglement of the landed elite and bankers in an ever-expanding web of financial necessity spun as far back as 1694.¹⁷ The financial dependency of the one class and the rising wealth of the other allowed for more social interaction and intermingling, bringing bankers into the gentlemanly fold. In this socially mobile environment, Lionel Rothschild's financial patronage of Disraeli during his early career as a novelist and his willingness to give assistance to a debt-riddled Disraeli in 1848 helped establish a friendship which lasted through their lives.¹⁸ As Jews, both men were outside the landed establishment and both sought respectability within society. This interdependency needs to be expanded upon further for it is the basis of the theory of gentlemanly capitalist agency in British imperialism.

¹⁶ Gallagher and Robinson, "Imperialism," 10-11.

¹⁷ Dickson, *Financial Revolution*, 17.

¹⁸ Niall Ferguson, *The House of Rothschild: The World's Banker, 1849-1999* (New York: Viking Penguin, 1999), 28-36.

Before 1850, landowning peers dominated the political landscape of Great Britain, which enabled them to maintain a preeminent position in economic and social life as well.¹⁹ Indeed, on the surface, the political *status quo* did not seem to change much following 1850; the small number of available positions in upper-level administration was open chiefly to those with private means and elite connections. Some offices, like the Foreign Office, were dominated by peers until as late as 1914. Similarly, the nineteenth century as a whole had more Prime Ministers from the House of Lords than from the House of Commons, despite the democratizing nature of the 1832 and 1867 Reform Acts.²⁰ Therefore, it is not surprising that increasing profits and fortunes drove bankers and merchants to seek entrance into the gentlemanly class, from which they had previously been excluded due to their backgrounds and where they could mingle with the aristocracy and influence state policy.

Several characteristics distinguished the English gentleman of the nineteenth century. Most important of all, a gentleman needed a proper education. The landowning elite sent their children to public schools like Eton and then on to Oxford or Cambridge.²¹ Therefore, if a banking family like the Rothschilds or Goschens—already somewhat marginalized as Jews or foreigners²²—or a wealthy merchant family like that of John Gladstone wanted their sons to become English gentlemen, an elite education was a necessity.²³ For the Rothschilds, attending these institutions had little bearing on their future careers since they were likely to be recruited into the family firm. Nathaniel Rothschild, the leading partner of the London branch of the bank

¹⁹ Cain and Hopkins, *British Imperialism*, 67.

²⁰ D.C.M. Platt, *Finance, Trade, and Politics in British Foreign Policy, 1815-1914* (Oxford: Oxford University Press, 1968), x-xx.

²¹ Cain and Hopkins, *British Imperialism*, 38-45.

²² Thomas J. Spinner, *George Joachim Goschen: The Transformation of a Victorian Liberal* (Cambridge: Cambridge University Press, 1973).

²³ Ferguson, *Rothschild*, 225-226; Jenkins, *Gladstone*, 9-25.

following his father's death in 1879, attended Cambridge but did not achieve a degree.²⁴ George Goschen was schooled at Rugby before seeking a scholarship at Trinity.²⁵ Although the four Gladstone boys all attended respectable schools, William was the only one to achieve any high academic honors.²⁶

Superficially, the failure of Nathaniel Rothschild and William Gladstone's brothers to realize academic success may seem a waste of money. However, public school and university were, in a sense, elite social clubs wherein future gentleman could be allowed to intermingle and exchange ideas. For Nathaniel Rothschild, enrollment at Trinity College afforded him the opportunity to forge a friendship with the Prince of Wales.²⁷ After leaving Trinity, Nathaniel successfully pursued a seat in the House of Commons.²⁸ Goschen found employment with Frühling and Goschen, his family's firm, and began his career in Parliament in 1859.²⁹ Similarly, the Gladstone boys' enrollment in elite schools preceded stints in Parliament for each.³⁰ Regardless of one's success in public school, enrollment alone, if backed by socially enabling private means, seems to have provided the sons of bankers and merchants with a door into the Houses of Parliament.

Another characteristic of the English gentleman in the nineteenth century was the leisurely nature of their occupation. An English gentleman was expected to be removed from direct contact with the means of production and labor.³¹ Additionally, the free time afforded to a gentleman enabled him to pursue sport and study the arts of administration and leadership.³²

²⁴ Ferguson, *Rothschild*, 226.

²⁵ Spinner, *Goschen*, 2-5.

²⁶ Jenkins, *Gladstone*, 9-25.

²⁷ Ferguson, *Rothschild*, 230.

²⁸ *Ibid.*, 113-114.

²⁹ Spinner, *Goschen*, 7-15.

³⁰ Jenkins, *Gladstone*, 20-60.

³¹ Cain and Hopkins, *British Imperialism*, 50.

³² *Ibid.*, 38-39.

Banking partners and financiers had both the time and money to pursue a gentlemanly life. After making a fortune in the Anglo-American trade, John Gladstone retired to a life of foreign investment.³³ The London Rothschilds were known to take short work days, sought membership in the popular social clubs of London, and purchased country estates, another signifier of the gentleman.³⁴ Moreover, the Rothschilds and Goshens were primarily interested in lending to foreign governments, not commerce or industry. They were therefore focused on returns, not development. Generally speaking, wealthy bankers and merchants had worked their way into the social world of the English gentleman by the second half of the nineteenth century.

As D.C.M. Platt has thoughtfully pointed out, “what record is likely to survive of an informal contact over a club bar, or of a conversation at dinner in a country house?”³⁵ Nevertheless, there need not be records for an observer to see an alignment of interests. The theory of gentlemanly capitalism posits that “it is impossible to separate the world of ‘acceptable’ business from that of elite politicians and from their perceptions of national interest.”³⁶ In other words, the fraternizing of moneyed men and politicians in the social world is representative of the alignment of their interests. Put simply, as the two groups intermingled and intermarried, so too did their interests. Although disputes might have arisen over the particular course of action to take in a political or economic crisis, they were debated by members of the gentlemanly capitalist elite whose shared goals comprised the national interest.³⁷

Domestically, the gentlemanly capitalist elite were particularly instrumental in two economic crises in the last quarter of the nineteenth century. The so-called bimetallism controversy in the 1880s and 1890s was, in essence, a debate over the validity of the gold

³³ Jenkins, *Gladstone*, 4-5.

³⁴ Ferguson, *Rothschild*, 20-40.

³⁵ Platt, *Finance*, 5.

³⁶ Cain and Hopkins, *British Imperialism*, 31.

³⁷ *Ibid.*, 43.

standard. While some economists supported the abandonment of the gold standard most City bankers—including Goschen³⁸—supported its continuation. The Chancellor of the Exchequer chose to uphold the gold standard, a reflection of the shared understanding of national economic interest between bankers and government.³⁹ Similarly, the Baring Crisis, in which the Baring Brothers had underwritten loans to Argentina without sufficient liquidity, also precipitated government action. This crisis differed from the financial crisis of the 1860s in which the finance house Overend, Gurney, and Company was allowed to fail. Unlike 1866, the Baring Crisis of 1890 was resolved by swift action by the Bank of England, the Exchequer, and several private banks to establish a fund that would guarantee Barings' solvency.⁴⁰ This nineteenth century case of “too big to fail” exemplified the seamless interaction between government and finance by gentlemanly capitalists.

Foreign bondholders, for their part, were happy to let a form of *laissez-faire* investment capitalism reign, as long as there was stability for their investments.⁴¹ In cases where instability threatened the financial and commercial order, there was discussion about the proper course to take. In South America, the proper course was to remain unofficially involved and protect Anglo-American relations that were underlined by tacit approval of the Monroe Doctrine. Although investments in South America were large, excessive state intervention there may have disrupted the flow of investment to the United States.⁴² Therefore, when bondholders needed representation in the new South American republics, they relied on consuls to act in an unofficial capacity to represent them.⁴³

³⁸ Spinner, *Goschen*, 61.

³⁹ Cain and Hopkins, *British Imperialism*, 144-145.

⁴⁰ *Ibid.*, 146-147.

⁴¹ Platt, *Finance*, 51.

⁴² Leland Hamilton Jenks, *The Migration of British Capital to 1875* (London: Jonathan Cape, 1938), 70-120.

⁴³ Platt, *Finance*, 35-38; Jenks, *Migration*, 119.

In Egypt and the Ottoman Empire, other circumstances dictated the exact course to be taken in order to insure the national interest. The British perception of Ottoman decline placed the region now called the Middle East in the forefront of strategic thought. Ottoman territory provided a buffer against Russian advances in Asia and the Balkans that might threaten the security of British India. British strategy toward the Eastern Question required the preservation of the Ottoman Empire. During the Crimean War, the Rothschilds furnished the Porte's first foreign loan, guaranteed by both the British and French governments.⁴⁴ That guarantee meant that the British government was bound to insure interest payments to the bondholders, out of its own pockets if necessary.⁴⁵ In return for a guarantee on the loan, the British government retained the right to appoint representatives for oversight into the loan's deployment.⁴⁶ Although that right was not exercised, these terms established the norms for state intervention on behalf of bondholders in other cases. In both Egypt and the Ottoman Empire, internal and external developments during the nineteenth century created different contexts for the protection of European interests.

Of particular interest for this study are the events that followed Mehmed Ali's assumption of power and the effects that programs of consolidation and centralization had on Egypt as a whole. The nineteenth century in Egypt can be roughly divided into three separate eras: the era of centralization and expansion through monopolies which lasted until 1840; the era of free trade and development through state borrowing lasting until 1875; and the period of direct European involvement in state affairs ultimately defined by the invasion and occupation by Great Britain and subsequent administration under Evelyn Baring.

⁴⁴ Donald C. Blaisdell, *European Financial Control in the Ottoman Empire: A Study of the Establishment, Activities, and Significance of the Administration of the Ottoman Public Debt* (New York: AMS Press Inc., 1966), 28.

⁴⁵ Platt, *Finance*, 13.

⁴⁶ Blaisdell, *European Financial Control*, 28.

Mehmed Ali was an Albanian Ottoman army officer intent on establishing his own dynastic state; therefore, despite the claims of Egyptian nationalist historians, Ali should not be considered the father of modern Egyptian nationhood, although his reforms would give rise to it circumstantially. Accordingly, to some degree Colonel ‘Urabi’s attempted nationalist revolution in 1882 can trace its roots to the military system founded and expanded by Mehmed Ali. The creation of an Egyptian army relied entirely on conscription of the peasantry, who were often unwilling to fight in wars of conquest, and enslavement in the Sudan.⁴⁷ By developing his own military strength, Ali consolidated his power in the international arena; domestically, he removed Mamluks from power, violently, and co-opted other elites.⁴⁸

In order to fund an increasingly large military, economic reform was a necessity. When Mehmed Ali assumed power in 1805, the Egyptian economy was largely agricultural and such industry that existed had not been exposed to mass-mechanized means of production.⁴⁹ In the agricultural sector, the practice of tax-farming, in which a *multazim* would acquire land from the state and collect taxes from the peasantry while utilizing his own tax-free portion, was phased out during Ali’s early reign. If a *multazim* was unable to collect the taxes assigned to him, the corresponding land was confiscated by the state and redistributed to a member of Ali’s network. This process of reallocating land was complemented by official cadastral surveys and the levying of uniform and direct taxes. Moreover, the residents of land now under direct taxation by the state were simultaneously forced to grow certain crops that Mehmed Ali wished to export. In

⁴⁷ See Fahmy, *All the Pasha’s Men*.

⁴⁸ Afaf Lutfi al-Sayyid Marsot, *Egypt in the Reign of Muhammad Ali* (Cambridge: Cambridge University Press, 1994), Chapters 3,4, and 5.

⁴⁹ P.S. Girard, “Memoire sur l’agriculture, l’industrie, et le commerce de l’Egypte,” *Description de l’Egypte, etat moderne* (Paris, 1809-22), 688-91, 618-20, 701-711 quoted in Charles Issawi, edit., *The Economic History of the Middle East, 1800-1914: A Book of Readings* (Chicago: University of Chicago Press, 1966), 375-379.

this way, Ali created state monopolies in the agricultural sector and realized increases in revenue.⁵⁰

Additionally, Ali attempted to develop a domestic industrial sector to relieve Egypt of its reliance on imported goods. Factories were built not only for the production of goods such as textiles and glass, but also to produce the complex machinery needed for industrial growth.⁵¹ Ali hoped that these government-owned factories would produce goods for both domestic consumption and external trade. Numerous attempts were made to protect new industries by encouraging Egyptians to buy Egyptian goods; however, these protectionist policies were waylaid by Ottoman control of customs duties and eventually dissolved by international treaty toward the end of Ali's reign.⁵² Despite difficulties, these economic reforms were able to create industrial and agricultural monopolies that funded a new Egyptian army.

The army allowed Mehmed Ali to invade the Levant and challenge the authority of the Porte over Egypt and greater Syria. The campaign to re-conquer Mecca and Medina from the Wahabis at the Porte's urging in 1813 gave Mehmed Ali's oldest son, Ibrahim, the title of governor of the Hijaz. The expanding Egyptian empire now had control over the Red Sea trade.⁵³ Similarly, the Porte requested Ali's assistance in the unsuccessful campaign against the Greek independence movement. Following defeat in Greece, Ibrahim invaded and occupied Ottoman Syria where he was established as governor of the province under the Porte's decree.⁵⁴ Mehmed Ali's wars of conquest had expanded the territory under his control to cover Egypt, the

⁵⁰ Kenneth M. Cuno, "The Origins of Private Ownership of Land in Egypt: a Reappraisal," in *The Modern Middle East: A Reader*, eds. Albert Hourani, Phillip Khoury, and Mary Wilson (Berkeley: University of California Press, 1993), 195-228.

⁵¹ Ali al-Giritli, *Tarikh al-sina'a fi Misr (This History of Industry in Egypt)* (Cairo, 1952) quoted in Issawi, *Economic History*, 390-392.

⁵² *Ibid.*, 393.

⁵³ Marsot, *Egypt*, 203-204.

⁵⁴ *Ibid.*, 220-231.

Sudan, the Hijaz, and Syria by 1833. This proto-empire was to be short-lived; Egypt's expansion threatened the integrity of the Ottoman Empire and Great Britain would soon intervene.

In 1838, the Sublime Porte signed an agreement with Great Britain—the Treaty of Balta Liman—which dissolved monopolies within the Ottoman Empire while granting British merchants the right to purchase and sell goods subject to a relatively favorable three percent tariff.⁵⁵ The Porte agreed to the terms hoping that it would limit Mehmed Ali's growing power by forcing him into direct conflict with Great Britain.⁵⁶ Ali's refusal of the terms did lead to a confrontation with Britain; in the summer of 1840 Anglo-Turkish troops landed in Beirut and helped incite a rebellion against Egyptian rule throughout Syria.⁵⁷ Forced from Syria, Mehmed Ali consented to the terms of the Treaty of London (1840), which reiterated the commercial agreement of Balta Liman, forced Egypt to remove its claim over the Holy Cities, and drastically limited his military capabilities. In accepting the terms, Mehmed Ali received a concession that granted hereditary rule over Egypt and Sudan with the succession going to his oldest male relative.⁵⁸ This was a watershed moment for Egypt in several respects: first, the military capabilities of Egypt were severely limited; second, the family of Mehmed Ali was guaranteed succession but remained bound to the Sublime Porte; and third, industrial and commercial reforms were undone, restricting the state's ability to produce revenue through monopolization and forcing the government to look abroad to finance public projects.

Mehmed Ali would continue to rule Egypt as Viceroy until 1848 when he was replaced by his son, Ibrahim, due to illness. Ibrahim died shortly after assuming power and was in turn replaced by his nephew, Abbas. Under Abbas, Egypt's military capabilities were reduced as

⁵⁵ *Anglo-Turkish Commercial Convention of 1838* quoted in Issawi, *Economic History*, 39.

⁵⁶ Marsot, *Egypt*, 238.

⁵⁷ *Ibid.*, 246.

⁵⁸ Afaf Lutfi al-Sayyid Marsot, *A Short History of Modern Egypt* (Cambridge: Cambridge University Press, 1985), 64.

dictated by the terms of the Treaty of London and to help economize the state's expenditures.⁵⁹ Abbas also authorized the construction of a railway between Alexandria and Cairo at the urging of Britain's consul-general and several directors of the British Peninsular and Oriental Steam Navigation Company. The railway was built using supplies purchased in Britain under the direction of British engineers, but with Egyptian capital and labor.⁶⁰ British capitalists flocked to Egypt and British influence in Egypt would be ascendant until Abbas's death later that year.⁶¹ Importantly, these British capitalists were involved directly in the development of infrastructure and therefore had an interest in the actualization of projects, unlike later financiers issuing government loans.

Under Said, Egypt turned toward France for foreign development. The Viceroy developed a personal relationship with Ferdinand de Lesseps through which a concession was given for the construction of the Suez Canal.⁶² Despite British opposition to the canal scheme—due to commercial and financial interests in Egyptian railways and fear of French dominance in Egypt—the Suez Canal Company was formed and in 1858 issued 400,000 shares of stock for public purchase. Over 200,000 were bought in France while Said purchased 64,000. Shares were set aside for British subscribers but there was no initial investment. In 1860, over one quarter of the original shares were still unsubscribed and Said was induced to purchase them.⁶³ Egypt did not have the capital to finance these additional shares and the Viceroy turned to financiers in France for a loan in September of 1860.⁶⁴ This would be the first in a series of

⁵⁹ Ibid., 65.

⁶⁰ Charles W. Hallberg, *The Suez Canal: Its History and Diplomatic Importance* (New York: Columbia University Press, 1931), 105-110.

⁶¹ Ibid. 113.

⁶² Marsot, *A Short History*, 66.

⁶³ Hallberg, *The Suez Canal*, 137-159.

⁶⁴ David Landes, *Bankers and Pashas: International Finance and Economic Imperialism in Egypt* (Boston: Harvard University Press, 1980), 107-108.

loans with extremely unfavorable terms that Egypt would contract over the following decade and a half.

British reluctance to subscribe to the Suez Canal project reveals an interesting dimension of gentlemanly capitalism. Capitalists with an adventuresome spirit were willing to back British projects like the Nile Navigation Company. Funded mainly by British capital, the company collapsed in the early 1860s and Said directed the Egyptian Treasury to purchase the company's shares at a large cost.⁶⁵ However, the City's financial houses, including aspiring gentlemanly capitalists like the Rothschilds and Goscens, were much less willing to be involved in staple industrial and commercial ventures as such, preferring government loans with high interest rates. Under such principles, Suez Canal shares did not seem to offer attractive returns. Nevertheless, as borrowing accelerated under Said and Ismail, financiers in Britain were increasingly involved in Egyptian government loans which were channeled into development projects by the recipient state.

From 1863-1873, Ismail, Abbas' successor, undertook seven foreign loans worth 69 million pounds sterling at an average interest rate of 10%. Of the nominal total, Egypt actually received 46 million. A large portion of the sums received went directly to servicing Egypt's debt.⁶⁶ A small percentage of Egypt's expenditure went to the Porte in the form of tribute, which was doubled in 1867 in exchange for succession by primogeniture and official recognition as Khedive. The remainder was used on internal development. Ismail expanded irrigation to encourage cotton cultivation, which had become extremely profitable thanks to reduced American production during the Civil War; the harbor in Alexandria was deepened and widened;

⁶⁵ Roger Owen, *The Middle East in the World Economy, 1800-1914* (London: Methuen, 1981), 123.

⁶⁶ Owen, *The Middle East*, 125-127.

roads were paved; and bridges were built. While some of the projects were undoubtedly beneficial, others—such as palace-building—drained Ismail’s finances unnecessarily.⁶⁷

Egypt was not alone in its growing dependence on European finance. In the 1860s, bankers and financiers flocked to Istanbul as well as Alexandria, either to establish correspondent offices for their European banks or to act as mediators for loans.⁶⁸ In Egypt, British capital helped establish the Anglo-Egyptian Bank and continental bankers like Oppenheim, Chambert, and Company lent and managed capital for private and public investors.⁶⁹ In the Ottoman Empire, the Imperial Ottoman Bank acted locally on behalf of its British and French backers.⁷⁰ Like Khedive Ismail, Sultan Abdul Aziz spent borrowed-money enthusiastically for development projects which served the underlying aim of centralizing state authority.⁷¹ That spending in Cairo and Istanbul was out of control is clear; however, European financiers were no less at fault for facilitating bankruptcies through recklessly exploitative lending practices.

Ismail developed a close working relationship with Eduard Dervieu, a French financier, who acted as a personal banker and unofficial adviser to the Khedive during his reign. Thanks to connections with both the Khedive and European financiers, Dervieu’s career was made by encouraging the two sides to do business with one another.⁷² Although there does not appear to have been a similar figure in the contemporary Ottoman financial realm, bankers were certainly encouraging the Porte’s borrowing and may have been able to destroy the political careers of Ottoman ministers who refused to accept loans.⁷³ Generally speaking, the unfavorable terms of

⁶⁷ Marsot, *A Short History*, 67-68.

⁶⁸ Landes, *Bankers and Pashas*, 57.

⁶⁹ *Ibid.*, 112-115.

⁷⁰ Blaisdell, *European Financial Control*, 1-2.

⁷¹ Wallerstein, Decdéli, and Kasaba, “Incorporation,” 94.

⁷² Landes, *Bankers and Pashas*, Chapters 7-10.

⁷³ Blaisdell, *European Financial Control*, 38.

Ottoman and Egyptian bonds meant investors had a high profit potential. Conversely, Egypt and the Ottoman Empire were not receiving the full amount of subscribed capital and were still obligated to return the nominal value with interest.

For both Egypt and the Ottoman Empire, increasing integration into a European dominated global economy precipitated foreign indebtedness. In both cases, ostentatious spending encouraged by predatory lending led to massive indebtedness by 1875: in Egypt the debt was approximately ninety million pounds sterling while in the Ottoman Empire the debt was over two hundred million.⁷⁴ Although the policies that had led Cairo and Istanbul to this point were in some respects identical, the routes taken after 1875 were different. Between 1875 and 1881—particularly following the Berlin Congress in 1878—the Porte negotiated with representatives of European bondholders and the Powers. The Decree of Mouharrem in 1881 established the PDA as a body to manage Ottoman finances.⁷⁵ Despite the creation of a similar body in Egypt in 1876, stability was not achieved and by late 1882 Egypt had been invaded and occupied by Britain.

The emergence of Germany as a mediator in resolving the Russo-Ottoman crisis of 1877-1878 signaled a turn in Britain's ability to influence the Ottoman Empire. As the Porte looked increasingly to Germany and built a relationship that would last until World War I, Britain had already embarked on a transformed relationship with Egypt that would deepen in the decade to come. Both British bondholders and the British government found themselves heavily invested in the financial well-being of Egypt; with the purchase of the Khedive's Suez Canal shares, the British government became a bondholder by another name.

⁷⁴ Lutfi, *Egypt*, 1; Owen, *The Middle East*, 101.

⁷⁵ Blaisdell, *European Financial Control*, 80-97.

Chapter 2 - Government Bonds and Imperial Occupation

When the program of foreign borrowing began, Egypt was experiencing a boom in cotton prices thanks to disruption of cotton production in the United States during the Civil War. By 1870, American cotton production had revived and the 1873 global financial crisis depressed commodity prices, further hampering Egypt's ability to meet its obligations.⁷⁶ In 1873 over half of Egypt's funded debt was owned by British bondholders.⁷⁷ Frühling and Goschen alone had issued over ten million pounds between 1862 and 1866, all in London. Moreover, if a loan was extended by a body such as the Anglo-Egyptian Bank or the Imperial Ottoman Bank, a majority of its shares were issued in London.⁷⁸ It is important to recognize that these were not held by the British government but by independent bondholders who were represented by the Corporation of Foreign Bondholders, a body composed of British financiers that extended credit to foreign governments.⁷⁹ Nonetheless, in 1878 at least four MPs sat in the Council, including both Deputy Chairmen.⁸⁰ These four MPs represent the overlap between private and state interests in gentlemanly capitalism.

Egypt's financial situation in 1875 was dire. Ismail needed a loan desperately in order to meet his debt obligations, but Egypt's existing external debt and yearly budget deficits had destroyed the state's credit.⁸¹ Unable to negotiate a new loan, the Khedive began to market his Suez Canal Company shares to raise the necessary capital. Lord Derby, then Foreign Secretary, informed the consul-general in Egypt, General Stanton, that he had "received information that a

⁷⁶ Landes, *Bankers and Pashas*, 214, 235.

⁷⁷ Cain and Hopkins, *British Imperialism*, 313.

⁷⁸ *The Annual General Report of the Council of the Corporation of Foreign Bondholders* (London: Councilhouse No. 17 Moorgate St, 1878), downloaded from <http://books.google.com/books?id=Micfa0jiWqkC&oe=UTF-8>, 62-75.

⁷⁹ *Ibid.*

⁸⁰ *Ibid.*, 4.

⁸¹ Landes, *Bankers and Pashas*, Chapter 10.

combination of French capitalists [were] offering to buy from the Khedive his interest in the Suez Canal.”⁸² Stanton confirmed the offer and noted that Derby’s subsequent offer for the British government to purchase the shares was well received.⁸³ According to Derby, “it [was] of great importance that the Viceroy’s interest in the Suez Canal should not fall into the hands of a foreign company,” a view reiterated by Prime Minister Disraeli during the first session of Parliament in 1876.⁸⁴ Derby authorized Stanton to negotiate a transaction in which Great Britain would purchase the Khedive’s shares for approximately four million pounds sterling.⁸⁵

Since Parliament was not in session and the Bank of England was not able to act as the financial instrument of the British Government, the Rothschilds were approached. The agreement proposed by the Rothschilds offered to purchase the shares at four million pounds sterling in installments with a commission of two and one half percent. Also, the Rothschilds would receive the five percent interest on the shares—a replacement for the shares’ mortgaged dividends—due to the British government until the total amount had been repaid. As security against this “heavy liability”, the Rothschilds wanted written confirmation that the government would “endeavour to obtain the necessary powers to enable them to repay the advance, and pay Messrs. Rothschild’s commission as soon as may be practicable.”⁸⁶ The transaction was not a loan in the strictest sense; rather, as Disraeli described it, the government asked “will you purchase these shares on our engagement that we will ask the House of Commons to take them off your hands?”⁸⁷ As understood by the Rothschilds, both the commission and interest would be charged to and paid by the British government, a bridging loan by another name.⁸⁸ Either

⁸² PP, Egypt No. 1 (1876), Derby-Stanton, 11/15/1875.

⁸³ PP, Egypt No. 1 (1876), Stanton-Derby, 11/18/1875.

⁸⁴ PP, Egypt No. 1 (1876), Derby-Stanton, 11/18/1875; Disraeli in House of Commons, 2/8/1876, Hansard.

⁸⁵ PP, Egypt No. 1 (1876), Derby-Stanton, 11/25/1875.

⁸⁶ PP, Egypt No. 1 (1876), Treasury Minute, 11/25/1875.

⁸⁷ Disraeli in Commons, 2/8/1876, Hansard.

⁸⁸ PP, Egypt No. 1(1876), Rothschild-Exchequer, 11/25/1875.

way, according to both the Rothschilds and Disraeli this transaction posed a great risk. However, it seems that if the government refused to “take them off their hands,” the Rothschilds would have been owners of nearly half the Suez Canal Company with guaranteed interest payments of two hundred thousand pounds due annually, hardly a “great risk.”⁸⁹

Two questions regarding this transaction stand out. First, why was the British government so concerned about the Suez shares falling into the hands of a foreign company? Second, what does the cooperation between the government and the Rothschilds reveal about gentlemanly capitalism? In response to the first, only two years before this transaction a dispute between the Suez Canal Company and the British government had arisen over tonnage duties. Essentially, the dispute concerned the way in which net tonnage was measured and charged. It was settled by a commission in Istanbul, but de Lesseps, unhappy with the terms of the agreement, threatened to close the Canal. A force of ten thousand Egyptian soldiers was deployed under the command of a British officer to seize control should de Lesseps proceed. Sufficiently threatened, de Lesseps backed down and agreed to the settlement.⁹⁰ For Disraeli, threats to close the Canal to British ships were proof that one company’s control of the Canal was dangerous to British commercial and strategic interests.⁹¹ Therefore, British government ownership was perhaps the best way to safeguard the Canal and its commercial and strategic significance.⁹²

This leads directly into the second question. The government did not have four million pounds lying dormant in the Treasury and since the Bank of England could only be petitioned through Parliament, a private banker was needed. According to Disraeli, “the Bank of England

⁸⁹ Ibid.

⁹⁰ Hallberg, *The Suez Canal*, 223-228.

⁹¹ Disraeli in Commons, 2/8/1876, Hansard.

⁹² PP, Egypt No. 1 (1876), Derby-Lyons, 11/20/1875.

would no more have advanced £4,000,000 for the purchase of these shares, and taken the responsibility of holding them upon themselves, than they would have paid off the National Debt.”⁹³ Thankfully, he was a close friend of Baron Rothschild and was therefore quick to contact the Baron regarding the potential purchase.⁹⁴ The transaction would not have happened had Disraeli not been adamant about it. Indeed, in a letter to the Queen on November 18th, Disraeli expressed that “it is vital to your Majesty’s authority and power at this critical moment, that the Canal should belong to England, and I was so decided and absolute with Lord Derby on this head, that he ultimately adopted my views.”⁹⁵

There was no shortage of disagreement in Parliament regarding the purchase. Gladstone recognized that a commitment to purchase the shares had been made and it would be irresponsible to renege on funding. However, in paying two and one half percent commission with five percent interest for an advance that was to last only a few months, the actual per annum interest rate was around fifteen percent. Additionally, since the Khedive had mortgaged the dividends to his shares and forfeited his rights to act as a Director, the British government would receive no representation on the board. Gladstone noted “that the government [was] not aware of the limited extent of voting power attached to those shares.”⁹⁶ The lack of awareness is ignorance at best: without voting power how could the government possibly hope to guarantee the security of communication and transportation through the Canal? Consultations between Colonel Stokes and de Lesseps would later produce an agreement whereby three Englishmen would be granted seats on the Company’s board and Britain would not be deprived of its voting

⁹³ Disraeli in Commons, 2/8/1876, Hansard.

⁹⁴ Hallberg, *The Suez Canal*, 243.

⁹⁵ G.E. Buckle, *The Life of Benjamin Disraeli: Earl of Beaconsfield*, vol. V, 440, quoted in Hallberg, *The Suez Canal*, 242.

⁹⁶ Gladstone in Commons, 2/21/1876, Hansard.

rights.⁹⁷ Nevertheless, the quick action taken by the government to purchase shares without first undertaking to negotiate for voting rights betrays the notion that the purchase held purely strategic goals as a priority.

Interestingly, Sir Stafford Northcote, the Chancellor of the Exchequer, admitted that “we knew that we were taking a step outside of strict law” by engaging the Rothschilds in this transaction.⁹⁸ Indeed, they had broken with norms of governmental action developed over the course of a century. However, since the Suez Canal was, by its very nature, an unparalleled engineering feat, “the conduct of the Government could not be precisely in accordance with any precedent.”⁹⁹ Therefore, while the actions of the state may have seemed undesirable in February, they were deemed necessary in November. Since the state alone was unable to fund the protection of the British national interest, as defined above, with sufficient haste, they turned to a private firm. The Rothschilds willingness to participate in the scheme reveals two things: a linkage between state interests and potential financial gains; and the ability of an outsider firm like the Rothschilds to align itself with the establishment. Even more importantly, the purchase gave the British government a financial stake in a private company operating on foreign soil and in the Egyptian government’s ability to pay its obligations.

It must be noted that within two years of the Canal’s opening, the Khedive had already expressed an interest in selling his shares to a British company.¹⁰⁰ At that time, the Board of Trade understood that British ownership of the Canal would be extremely beneficial for commercial purposes. However, the Canal would need substantial oversight and the British government “would then be responsible for the acts of a body over which they would have no

⁹⁷ PP, Egypt No. 9 (1876), 14, Stokes-Derby, 2/23/1876.

⁹⁸ Northcote in Commons, 2/21/1876, Hansard.

⁹⁹ Ibid.

¹⁰⁰ PP, Egypt No. 2 (1876), 133, Stanton-Granville, 12/30/1870.

substantial control, and might be placed in a very embarrassing relation to foreign Governments.”¹⁰¹ The first government of the Liberal Gladstone (1868-1874) was fully aware of the potential for conflict that would arise from involvement in the affairs of the Suez Canal Company long before his Conservative successor’s government made the purchase. The transaction in 1875 should therefore be seen as the fulfillment of the Khedive’s ultimate goal of selling his shares to reach financial solvency. Under Gladstone, the British government had no interest in purchasing the shares or encouraging a private firm to do so. Under Disraeli, the threat of total French control of the Canal to British interests was enough to induce the government to act.

While the Khedive looked for buyers, he also asked for British assistance in Egypt’s financial affairs. On October 20, 1875, the Khedive requested the assistance of a “competent Government official...to assist his Minister of Finance in remedying the confusion which His Highness admitted existed in the Department of his Administration.”¹⁰² Britain appointed Mr. Cave, the Paymaster-General, to go to Egypt and report on the financial situation.¹⁰³ Cave’s report outlined the total revenue and expenditure expected in the future and noted that “if the gravity of the situation is explained to the bondholders they will consent to an arrangement for securing to them a fair return on their loans.”¹⁰⁴ Since the sale of the Suez shares had done little to improve Egypt’s finances, the Caisse de la Dette, an international commission, was established with the goal of representing bondholder interests.¹⁰⁵ The system of Dual Control in which one French and one British controller-general were to manage revenue and expenditure

¹⁰¹ PP, Egypt No. 2 (1876), 135-138, Farrer-Hammond, 1/26/1871.

¹⁰² PP, Egypt No. 4 (1876),1, Stanton-Derby, 10/30/1875.

¹⁰³ PP, Egypt No. 4 (1876), 4-5, Derby-Cave, 12/6/1875.

¹⁰⁴ PP, Egypt No. 7 (1876), 11, Report by Mr. Cave, 3/23/1876.

¹⁰⁵ PP, Egypt No. 8 (1876), Inclosure 2, 5/6/1876, 56.

was established simultaneously.¹⁰⁶ Evelyn Baring, the youngest son of the Baring banking family, was given the task of representing Britain. Although not directly affiliated with the bank, Baring did correspond regularly with his brothers and had connections with other City firms.¹⁰⁷ Great Britain thus found itself acting in a semi-official capacity through an agent approved by the government to guard bondholder interests.

The Corporation of Foreign Bondholders, acting through banker and MP for the City of London George Goschen, also participated in the adjustment and consolidation of the Egyptian debt. Before leaving for Egypt, Goschen had asked the Foreign Office to “point out to the Government of the Khedive how unfairly the holders of the bonds of these loans had been dealt with.”¹⁰⁸ Goschen asked for assistance knowing that British bondholders held over half of the nominal total of Egyptian debt in 1876.¹⁰⁹ Upon being informed of Goschen’s mission, Derby instructed the consul in Alexandria to “give such unofficial assistance as you can,” adding that “Mr. Goschen was a member of the late Cabinet, and is a person of high position and reputation in this country.”¹¹⁰ The irony of officially instructing an officer to act unofficially notwithstanding, Goschen used his status as an MP to gain leverage in negotiation regarding his own financial interest in Egypt.¹¹¹ Moreover, Goschen was praised by the Council for his efforts in providing an adequate adjustment of the Egyptian loans during autumn 1876.¹¹² Northcote asserted that while Goschen “received from the English government a certain amount of support...[he] conducted [his] business entirely on [his] own account.”¹¹³ Northcote goes on to describe how the settlement between the Khedive and the bondholders collapsed due to

¹⁰⁶ Marsot, *Short History*, 69.

¹⁰⁷ See Owen, *Lord Cromer*.

¹⁰⁸ PP, Egypt No. 8 (1876), 57, Frühling and Goschen-Derby, 5/12/1876.

¹⁰⁹ PP, Egypt No. 2 (1876), 191, Note on Proportions of Debt, 4/8/1878.

¹¹⁰ PP, Egypt No. 2 (1879), 8, Derby-Cookson, 8/2/1876.

¹¹¹ *Annual General Report*, 62-29.

¹¹² *Ibid.*, 7.

¹¹³ Northcote in Commons, 2/21/1879, Hansard.

seemingly insufficient revenue and Britain intervened through the consul-general.¹¹⁴ Goschen's mission was a perfect manifestation of the gentlemanly capitalist linkage between private finance and government.

In order to placate bondholders in response to Ismail's revenue shortage, a loan of eight and one half million pounds was extended by the Rothschilds to the Egyptian state.¹¹⁵ This loan transferred the Khedive's private land to the state as security, a result of negotiations using Baring as a middleman.¹¹⁶ Revenues from the mortgaged land would be "managed by a Commission of three, which [would] consist of an Egyptian, a Commissioner nominated by the English Government, and a commissioner nominated by the French Government," and would "remit the proceeds to Messrs. Rothschild."¹¹⁷ For Great Britain, the Rothschilds could be used to maintain Egypt's financial health. For the Rothschilds, the British government represented a door into an increasingly British Egypt open to more lucrative loans.¹¹⁸ Once again, the interests of state officials and financiers were aligned in Egypt.

By 1879, conflict between the Caisse de la Dette, the dual-controllers, and the Egyptian government was nonetheless delaying financial reforms deemed necessary by the European representatives. As the British controller-general, Evelyn Baring had clashed with Khedive Ismail over the steps needed to bring about financial solvency since his appointment in 1877.¹¹⁹ Baring felt strongly that "no sacrifice should be demanded from the creditors until every reasonable sacrifice had been made by the debtors."¹²⁰ This statement is particularly noteworthy since Baring went on to lament the fact that the debt had to be repaid by brutally collecting taxes

¹¹⁴ Ibid.

¹¹⁵ Ferguson, *Rothschild*, 304.

¹¹⁶ Owen, *Lord Cromer*, 121.

¹¹⁷ PP, Egypt No. 2 (1878), 1, Salisbury-Lyons, 10/24/1878.

¹¹⁸ Ibid., 132-3.

¹¹⁹ Cromer, *Modern Egypt*, 13-77.

¹²⁰ Ibid., 112.

from Egyptian peasants.¹²¹ In autumn 1878, the Khedive retained the services of two Europeans in the government as Finance Minister and Minister of Public Works, “an assurance that he was engaged upon a serious and honest experiment [in reform].”¹²² Ismail, however, wished to pursue his own method of financial reform and proposed an interest rate reduction of one half percent. Since the European ministers did not agree, Ismail dismissed them.¹²³ Following their dismissal, Lord Salisbury, then Disraeli’s Foreign Secretary, declared that Britain was committed to “defending their interests in Egypt, and in seeking the arrangements best calculated to secure the good government and prosperity of the country.”¹²⁴ Salisbury would later become Prime Minister—briefly in 1885 and again in 1886—when the British occupation was becoming firmly entrenched. British interests, of course, were linked implicitly to the maximization of rates of return for gentlemanly capitalists through sound and austere management of Egyptian finances.

In a revealing letter on June 18, 1879, Salisbury further enunciated his views on the British position. Since the Khedive’s mismanagement had failed to meet the reforms deemed necessary, Britain, in concert with France, was predisposed to protect its own interests in Egypt. Moreover, “the geographical situation of Egypt, as well as the responsibility which the English government had in the past incurred for the actual conditions under which it exists as a state, make it impossible for them to leave it to its fate.”¹²⁵ In other words, since Great Britain had intervened in Egyptian affairs to protect commercial and financial interests in the past—including free trade agreements and the purchase of Suez Canal shares—they could not allow Egypt to shirk its obligations. The responsibility that Britain envisaged for itself, and the

¹²¹ Ibid., 113.

¹²² PP, Egypt No. 3 (1879), 1-2, Salisbury-Vivian, 4/25/1879.

¹²³ Afaf Lutfi al-Sayyid, *Egypt and Cromer: A Study in Anglo-Egyptian Relations* (New York: Frederick A. Praeger Inc., 1969), 4.

¹²⁴ PP, Egypt No. 3 (1879), 2, Salisbury-Vivian, 4/25/1879.

¹²⁵ PP, Egypt No. 3 (1879), 10-12, Salisbury-Lascelles, 6/18/1879.

Khedive's unwillingness to abdicate, enabled the government, alongside France, to pressure the Porte to depose Ismail and transfer power to his son, Tawfiq.¹²⁶ Prior to this moment, Great Britain had remained somewhat indirect in its action toward Egypt, preferring to influence Egyptian affairs through financial advisers. With this action, however, Britain established a new precedent whereby official state power could be used to effect reform in Egypt that would benefit bondholders while securing British strategic goals.

Britain's involvement in Ismail's deposition was not the beginning of a policy of direct intervention. Gladstone's second government, which came to power in 1880, was not willing to commit itself to a more forceful policy towards Egypt. On the contrary, it expressed a strong desire to remain indirectly interested. In 1881, Lord Granville articulated British policy to Sir Edward Malet, the British consul-general in Cairo, noting "the policy of Her Majesty's Government towards Egypt has no other aim than the prosperity of the country and its full enjoyment of that liberty which it has obtained under successive Firmans of the Sultan."¹²⁷ The Sultan's successive *firmans* had granted Egypt its autonomous status and preserved the Khedive's line as successors, creating a state that was stable and beneficial to British interests. Egypt's prosperity was important to Britain due to the vast private investment in Egyptian debt as well as the government's part-ownership of the Suez Canal. Although Granville was not calling for any particular involvement in Egypt, he was linking the stake Great Britain had in Egypt—both financial and strategic—with a supposed concern for the welfare of Egypt itself. Despite the Liberals' ideological unwillingness to intervene directly in Egypt, the Conservatives' position *vis-à-vis* Ismail's deposition, like the purchase of the Suez Canal shares, was not fundamentally liquidated and would lead to even more intervention.

¹²⁶ PP, Egypt No. 3 (1879), 12, Lascelles-Salisbury, 6/19/1879.

¹²⁷ PP, Egypt No. 1 (1882), 2, Granville-Malet, 11/4/1881.

Almost immediately following Tawfiq's assumption of power his sovereignty was threatened from within Egypt. The Chamber of Notables, a semi-constitutional body created by Ismail in 1866, had been unable to exercise power until Tawfiq's rule. Beginning in 1881, however, conflict with the Chamber destabilized the Khedive's regime.¹²⁸ Britain and France, aware of the threat posed to the Khedive and thus their interests, issued a joint note in January 1882 stating their resolve in maintaining the Khedive's authority. Again, the note stops short of adopting forceful policy, but "the determination of England and France to afford [the Khedive and his government] support against the difficulties of various kinds which might interfere with the course of public affairs in Egypt" does imply a willingness to intervene if necessary.¹²⁹ The resolve of the two powers was to be tested later that year.

The conflict with the Notables continued to escalate throughout the winter and spring of 1882 as Colonel 'Urabi assumed the leadership of a burgeoning nationalist movement. There is no doubt that the large number of foreigners employed in the Khedive's government, particularly British and French, added to the discontent.¹³⁰ The Chamber of Notables, aware of the influence these European advisers had on state policy, demanded that they be given voting rights on the budget in place of the Council of Ministers. In response, the two controllers-general issued a note to both Britain and France expressing their fear that the Chamber "was certainly disposed to eliminate the European element from the administration of the country."¹³¹ Moreover, the Chamber's desire to intervene in the state's finances by voting on the budget was an attempt to gain voting rights over "all contracts with European functionaries and concessions to

¹²⁸ Sayyid, *Egypt and Cromer*, 6-10.

¹²⁹ PP, Egypt No. 2 (1882), 2, Despatch from Her Majesty's Agent and Consul-General in Cairo, 1/18/1882.

¹³⁰ PP, Egypt No. 4 (1882), 4-5, Return showing the number of foreigners in the service of the Egyptian government, 3/13/1882.

¹³¹ PP, Egypt No. 5 (1882), 64, Colvin and Blignieres-Malet and Sienkiewicz, 1/17/1882.

foreigners.”¹³² Should the Chamber have succeeded the financial interests of Britain and France would have been in jeopardy. The conflict between the notables and the Khedive can therefore be seen as a financial matter in which the Khedive’s government, supported by and supportive of British and French interests, was challenged. European involvement in Egyptian political affairs was inevitable as the Khedive was increasingly associated with Europeans.

Importantly, in the winter of 1882 there was no longer any mention of safeguarding the Suez Canal. Instead, the focus was on preserving the international arrangements made for settling the Egyptian debt crisis. With that in mind, Britain could not “be indifferent to events which might plunge Egypt into anarchy, and destroy the results of efforts which have been successfully made during the last few years to improve the condition of the country.”¹³³ The efforts to which Granville referred were all directed at improving the state of Egypt’s finances. Disorder in Egypt was a threat to the financial health of Egypt and by extension the financial security of foreign bondholders. By summer, disorder had reached a climax. On June 11, riots in Alexandria killed at least forty-nine people, of which three-fourths were European.¹³⁴ In the face of claims that ‘Urabi had instigated the riots, Sir Charles Dilke, undersecretary at the Foreign Office, noted that “the statement that soldiers assisted in the late riot at Alexandria is, according to all the information we possess, the opposite of the truth.”¹³⁵ The European consul-general in Egypt decided that a commission of inquiry into the causes of the riot was unnecessary.¹³⁶ If there was suspicion that ‘Urabi was indeed responsible for inciting the riot, it was not substantiated, nor was this a political factor in late-June.

¹³² Ibid., 65.

¹³³ PP, Egypt No. 5 (1882), 67, Granville-Dufferin, 1/26/1882.

¹³⁴ Sayyid, *Egypt and Cromer*, 16-22.

¹³⁵ Dilke in Commons, 6/14/1882, Hansard.

¹³⁶ PP, Egypt No. 17 (1882), 43, Cartwright-Granville, 6/27/1882.

On June 23, reports that ‘Urabi had nevertheless placed three vessels full of explosives in the Suez Canal for potential sabotage revived the British government’s latent fear for the future of its strategic interest in Egypt.¹³⁷ The construction of earthwork fortifications and gun batteries in Alexandria alarmed British officials enough to instruct Admiral Seymour, commander of the British fleet positioned in Alexandria, to demand the cessation of construction. Seymour was instructed to prevent any attempt to continue construction.¹³⁸ On July 11, Seymour bombarded Alexandria, an action that the British government regarded as self-defense.¹³⁹ On July 29, the British fleet moved to secure and hold the Suez Canal.¹⁴⁰ Britain’s move to secure the Canal was met with protestation from de Lesseps, who felt that Britain was abrogating its neutrality. The British directors in the Suez Canal Company noted that the government’s action stemmed from the assertion “on apparently good grounds that [‘Urabi] intends, as a last resource, to take measures to injure British trade by blocking the Canal.”¹⁴¹ On August 4, General Wolseley was sent to Egypt “in support of the authority of His Highness the Khedive, as established by the Firmans of the Sultan and existing international engagements, to suppress a military revolt in that country.”¹⁴² Wolseley’s expedition landed on the banks of the canal on August 16 and proceeded to crush ‘Urabi’s army on a march to Tel al-Kabir, where the Egyptian army was destroyed. On September 15, just over three months after the riot in Alexandria, the British military occupied Cairo and arrested ‘Urabi.¹⁴³

Why had Britain proceeded without French cooperation in its invasion of Egypt? The joint note of January 1882 was a clear example of cooperation with regard to their shared interest

¹³⁷ PP, Egypt No. 17 (1882), 8, Admiralty-Tenderden, 6/24/1882.

¹³⁸ PP, Egypt No. 17 (1882), 81, Granville-British Consuls, 7/5/1882.

¹³⁹ PP, Egypt No. 17 (1882), 114, Granville-British Consuls, 7/10/1882.

¹⁴⁰ PP, Egypt No. 17 (1882), 263, Admiralty-Seymour, 7/29/1882.

¹⁴¹ PP, Egypt No. 17 (1882), 268, British Suez Canal Directors-Granville, 7/31/1882.

¹⁴² PP, Egypt No. 17 (1882), 295, Childers-Wolseley, 8/4/1882.

¹⁴³ PP, Egypt No. 18 (1882), 66, Malet-Granville, 9/15/1882.

in Egypt, yet nine months later Britain found itself as the sole occupier. According to the British Ambassador in France, the French government was unwilling to pursue a joint military action for two reasons: first, they expected half of their troops would die of illness due to the season; and second, they believed that ‘Urabi “would lose strength by the lapse of time.”¹⁴⁴ Additionally, France was fearful that involvement in Egypt would prevent it from defending against a German invasion.¹⁴⁵ Britain was forced to act unilaterally after Prime Minister Freycinet’s government collapsed following disputes over funding an expeditionary force and the French naval units off Alexandria disengaged. While a small contingent of Ottoman soldiers was present in the invasion, it was decidedly British.

The decision to invade was primarily concerned with the preservation of the Khedive’s authority and, secondarily, the protection of the Suez Canal. Preserving the Khedive’s authority meant preserving the international agreements made regarding the Egyptian debt. Following the invasion, discussion of the introduction of liberal institutions in Egypt hinged on the ability of such institutions to fulfill Egypt’s international obligations. According to Lord Dufferin, the British Ambassador in Istanbul, over the course of 1882 the Chamber of Notables had “refused to recognize Egypt’s international obligations.”¹⁴⁶ As Gladstone understood, the bondholders’ rights rested on these international obligations.¹⁴⁷ There existed a very clear connection between the British government’s desire to preserve the Khedive and his international engagements, and those international engagements’ importance to bondholders. Regardless of the threat ‘Urabi did or did not pose to Egyptian stability, the British perceived his actions as contrary to the international engagements the Khedive had entered and, therefore, to financial interests. The

¹⁴⁴ PP, Egypt No. 17 (1882), 198, Lyons-Granville, 7/23/1882.

¹⁴⁵ Sayyid, *Egypt and Cromer*, 26-7.

¹⁴⁶ PP, Egypt No. 2 (1883), 22, Dufferin-Granville, 11/18/1882.

¹⁴⁷ Gladstone in Commons, 11/2/1882, Hansard.

reports of anarchy in Egypt served to consolidate British opinion and encourage action on the grounds of securing the Suez Canal. The perceived threat to the Suez Canal should not be disregarded; however, throughout the summer of 1882 the primary goal for Great Britain was a preservation of the *status quo* in which the Khedive reigned under British tutelage.

Following the invasion, Britain set about reorganizing the Egyptian administration. Britain chose Sir Evelyn Baring to fill the role of consul-general in Egypt, succeeding Edward Malet. After serving as controller-general of the Egyptian debt, Baring had served in India where he helped balance the budget and sought external funding for infrastructural development from the Rothschilds.¹⁴⁸ This was the second time Baring had used his connections to the Rothschilds and he would approach them for another loan in 1884.¹⁴⁹ Baring noted that “there was only one practicable method by which the Egyptian administration could be reformed: by placing the government more or less under British guidance.”¹⁵⁰ His background as a finance minister and controller-general gave him the experience needed to reform Egypt’s financial system and solidify Britain’s paramount position.

Immediately, however, conflict in the Sudan between the Mahdi and Egyptian forces further extended and entrenched British control in Egypt. The Mahdi was leading a revolt against Egyptian forces throughout the Sudan and attempting to establish independence in the wake of Egypt’s defeat and occupation. A British-led expedition sent to quell the uprising ended in disaster. In reporting the failure of the expedition to Granville, Baring described the Egyptian government as intransigent and unwilling to cede territory. He noted that the “maladministration of successive Egyptian governments” was the main cause of the revolt.¹⁵¹ In response, Granville

¹⁴⁸ Owen, *Lord Cromer*, 143-150.

¹⁴⁹ *Ibid.*, 205-10.

¹⁵⁰ Cromer, *Modern Egypt*, 341.

¹⁵¹ PP, Egypt No. 1 (1884), 129, Baring-Granville, 12/3/1883.

gave Baring instructions that would alter the British role significantly. Granville instructed Baring to make clear that “the responsibility which for the time rests on England obliges Her Majesty’s Government to insist on the adoption of policy which they recommend, and that it will be necessary that those Ministers and Governors who do not follow this course should cease to hold their offices.”¹⁵² Put simply, any advice given by Baring should be taken as an order and if an Egyptian minister was unwilling to follow that order, he would be sacked. This marked a significant change in the policy of Great Britain; not only was the army now occupying Egypt, but the administration of Egypt was to rely on British staff for direction.

¹⁵² PP, Egypt No. 1 (1884), 176, Granville-Baring, 1/4/1884.

Conclusion

In addition to the factors already noted, the invasion and occupation of Egypt should be seen within the context of dialectically oscillating imperialism under Disraeli and Gladstone. Disraeli's pro-Ottoman diplomacy during the Russo-Ottoman crisis of 1877-8 was replaced by Gladstone's opposition.¹⁵³ Coupled with the presence of large amounts of Egyptian bonds in the City, a situation was created where intervention became necessary. The "veiled protectorate" in Egypt established in 1882 under the trusteeship of Evelyn Baring was further entrenched under Lord Salisbury's government (1886-1890). Unlike Disraeli, who had continued the long-standing support for Ottoman integrity, Gladstone supported a more independent Khedivate in Egypt, especially after the loss of British influence in Istanbul.¹⁵⁴ Additionally, Gladstone had committed around half of his investment portfolio to Egyptian bonds in the 1870s.¹⁵⁵ This can almost certainly be ruled out as a cause for Gladstone's invasion, but it reveals how strong the links between finance and government were. Like Goschen, Gladstone exemplified gentlemanly capitalism's combination of finance and government as a circumstantially conditioning factor in policy consciousness.

The main goal of invasion—preserving the Khedive's authority and maintaining international financial agreements—was not easily accomplished. Spurred on by Evelyn Baring's autocratic management and his belief that Egyptians were unable to govern themselves effectively¹⁵⁶, Britain was induced to remain despite Gladstone's desire to withdraw.¹⁵⁷ Under Baring, the notion that Egyptians were a subject race in need of guidance became

¹⁵³ Robinson and Gallagher, *Africa*, Chapter 4.

¹⁵⁴ *Ibid.*

¹⁵⁵ Jenkins, *Gladstone*, 507.

¹⁵⁶ See Cromer, *Modern Egypt*.

¹⁵⁷ Robinson and Gallagher, *Africa*, Chapter 5.

institutionalized and would spread to other parts of the British Empire. In the metropolis, Salisbury, who had made the case for the importance of Egypt in 1879, similarly institutionalized the necessity of maintaining the empire for the protection of India. Both of these developments, steeped in imperialist racial and cultural attitudes and geopolitics, had roots in and were precipitated by the financial management of Egypt. The occupation of Egypt is therefore not only an example of gentlemanly capitalism at work, it also demonstrates how gentlemanly capitalism served as the catalyst and as an enduring factor of broader and more complex imperialist projects, and the “new” culture of empire after 1882.

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