

A Theoretical Assessment of Commitment Problems in Tax-Farming Contracts

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This study examines an economic institution which enabled the State to benefit from employing agents despite the commitment problem subsistent within these relations in the early modern Ottoman Empire. By employing tax-farming contracts, this study develops a strategic perspective on the mechanisms created by the State to facilitate coordination and commitment problems, which emerged due to the contractual relations with the agents. The State developed an auction mechanism to mitigate agency problems instead of creating an efficient monitoring as in Western Europe. The main question is that why did the Ottoman Empire fail to establish an efficient institutional structure in revenue extracting and cooperative outcomes?