

# The First Century of Modern Banking in Istanbul: The Curbing of Economic Interests by Political Power (Outline)

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## The First Century of Modern Banking in Istanbul: The Curbing of Economic Interests by Political Power

- ▶ **Goal:** To study the geographic spread of modern banking in Istanbul from 1847 to 1960
- ▶ **Main Contribution:** Adding religious & political angles to literature explaining the bank branching activities with population and income
- ▶ **Why Istanbul?** Ideal empirical ground:
  - ▶ (i) Cosmopolitan center (very diverse population),
  - ▶ (ii) Important trade center,
  - ▶ (iii) World's fifth largest city in 1850s,
  - ▶ (iv) Turkey's economic engine
- ▶ **Study Period:** 1847 (founding of Turkey's first bank, the Banque de Constantinople) - 1960 (coup that interrupted the multiparty democracy started in 1946)

## Banking in Old Istanbul

- ▶ Modern banking in Europe emerged in the 17th and 18th centuries (Roussakis, 1997)
- ▶ Techniques of financialization and banking were introduced in earlier times by the Jews who came to Ottoman land during expulsion of Jews from Spain in the 15th century
- ▶ The history of formal banking in the Ottoman Empire starts with the Banque de Constantinople and the Ottoman Bank that were founded in 1847 and 1856 respectively (mainly foreign-invested)
- ▶ Number of national banks started to increase with the establishment of modern Turkish Republic in 1923

# Literature

- ▶ Previous studies mainly focus on the economic / social factors creating differences in the financialization levels of countries in a cross country setting:
  - ▶ Countries' openness, economic / political institutions, population density and macroeconomic variables as a determinant of financial sector development (Olufemi & Ajayi (2018), Filippidis & Katrakilidis (2014))
  - ▶ Importance of social institutions on the bank-based development of low- and mid-income countries (Cherif & Dreger (2016))
- ▶ Cross country analysis does not explain the entire story: Sample selection bias and possible data consistency problems.
- ▶ To be able to achieve sustainable financial and economic growth, important to focus **one representative region** to understand how banking sector emerge and spread.

## Main Hypothesis and Identification Strategy

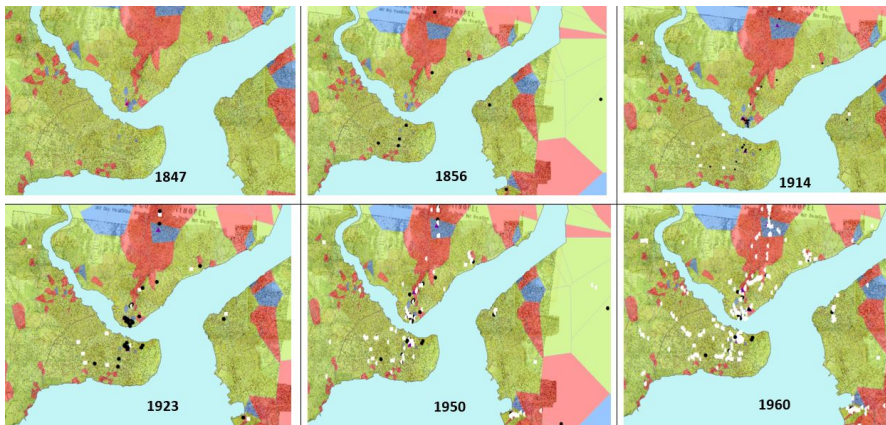
- ▶ H1: Foreign banks located very disproportionately in predominantly non-Muslim neighborhoods.
- ▶ H2: Within heavily Muslim neighborhoods, public banks pursued a strategy of maximizing Muslim-Turkish access to banks, as opposed to serving the wealthy.
- ▶ H3: Regardless of ownership, private banks prioritized wealthy neighborhoods.
- ▶ Identification Strategy: (i) Visually, (ii) Empirically

$$\Delta Bank_{d,t}(BankPresence_{d,t}) = \beta X_{d,t-1} + u_{c,t}$$

X: vector of baseline demographic, economic and geographic variables (distance to religious places, distance to shopping centers, existence of incumbent, population. . . )

# Identification- Visually

## Distribution of Bank Branches in Istanbul (1847-1960)



Thiessen polygons are communities centered around a mosque (green), church (red), or synagogue (blue). State-owned domestic (white square), Majority-owned private (white crescent), Minority-owned private (purple triangle) and Foreign banks (black circle)