

Urban Development in Istanbul under Structural Adjustment

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Lecture Notes:

Plan of lecture: a. Introduction to SAP b. Presentation of Turkey's history before and after SAP c. Impact of SAP on Housing d. The rise of the gecekondu e. The Politics of the gecekondu f. The World City Hypothesis and local government.

1. 20th century Istanbul

- Read Pamuk extract

2. Presentation of Structural Adjustment

- Import substitution funded by national economy with flows from developed nations. Net in migration in Istanbul due to growth of industries. Model: High Wages – High Exchange rates – Low Interest Rates
- Post war flows to developing countries funding their import substitution. Economic crisis. Between 1973-1974 oil prices increased fourfold. This had a huge impact on import costs. The State's foreign capital reserves dried out and this cut industrial production. This led to spiralling inflation. The projected GNP under the normal five year industrial plan was supposed to be around 12% but it ended being -0.1% in 1980.
- Michael Lipton: Agriculture is over-taxed. Urban bias thesis does not apply here.
- IMF Liberalisation & Stabilisation package: First measure: Increase interest rates. This would tackle both high inflation and attract foreign currency reserves. Previously, low interest rates supported local investment. Second measure: Depress wages to keep inflation low. Third measure: Devalue the currency, which was kept high in order to import cheap capital goods. Typified by Low Wages – Low Exchange Rates – High Interest Rates
- Net in-migration to Istanbul due to collapse of rural economies. Rapid transformation but a lag in the adjustment period for cities and for the labour market.
- Istanbul was greeted by new liberal Mayor Dalan, who focused on the world city image of Istanbul. FIRE services. Bulldozing of some settlements. Building of new roads. Motorways to airport and new CBD. Opposition to this image from expanding informal settlements.
- Liberalisation saw very steep drops in wages. This was one way that SEE could factor in more expensive imports.
- Big problem has been the lack of continuous investment with no continuous growth.

- Large flow of short term capital basically raises the demand for the local currency with exchange rates rising. This puts further pressure on exports.
- Shift away from long term productive to short term speculative forms of investment. Money flows into Stock Exchange rather than on capital investments & FDI which is very low in Turkey compared to other countries. The Istanbul Stock Exchange, predominantly populated by Government securities- i.e. not for the potential growth of private companies. Basically it was a way for government to finance its public sector debt. High interest rates attracted foreign investors.

3. Gecekondu & Sultan Beyli Examples

- Prior to liberalisation period, during import substitution, State was a regulator in the housing sector but never provided housing.
- Prior to the 1980's there was a housing boom fuelled by low interest rates and a state run consumption economy. After liberalisation, increasing interest rates and falling wages put a stall on this formal sector growth.
- The growth was accommodated through private savings and commercial banks were not allowed to issue lending which was earmarked for industrial growth. Increasing wages meant increasing investment in housing. Moreover the State Development Authority banned rent controls in 1963 to further promote investment in housing. This drove further people into the housing market and created a shortage of land by the late 1970's
- The liberalisation period, saw people shift away from investing in private housing and more towards banking with higher interest rates.
- To increase production in the housing sector, the military government set up a \$1bn fund (5% of national budget), 80% of which was to be given to consumers in the form of housing credits. This was only materialised in 1984-1987 due to fiscal problems. Such credits were only given to middle-income groups due to the down payments involved. Although this provided a boom in the sector, high inflation costs and material costs and supply to the middle and upper market saw the sector collapse once again in the late 1980's.
- In the mid 1990's the State attempted to enter the market as a formal investor providing low income housing but this has never met demand. Hence the development of gecekondu in low service, peripheral land.
- Informal economy may account to as much as 30%
- Although first wave of migrants settled on land directly, later generation had to access the gecekondu market, conducted by speculators and brokers.
- No official statistics but around 50% of Istanbul live in gecekondu.
- Difference in laws: one prevents construction of new units, by allowing the revitalisation of existing stock. The other is one that legalises areas in which existing structures are located for further construction.
- Informality of service provision. Gecekondu legalised during elections and service provision soon follows.
- Gecekondu have had a huge impact on local and national politics: Resistance to World City image; tensions between older generation migrants and later generation

migrants; services for local votes.

- Rise of Erdogan as a local mayor in Sultabeyli, opposing world city image and road constructions of Dalan. Local networks based on place of origin. In the 1970s local networks in Kartal and Pendik were formed along class lines- but these were banned by the dictatorship of 1980).
- Mobilisation of local welfare provisions mobilising an Islamic welfare, brought Erdogan a metropolitan victory. Istanbul's religion was promoted to city image to attract tourism and the urban poor were mobilised into the economy.

4. Investment Gaps and the future of Istanbul

- Land use competition for World City functions rather than housing urban poor
- Levels of decentralisation have been successful and have followed a similar model to the UK. A metropolitan government (its boundaries were extended in 2004 to cover the functional area of the region) 5500 km sq from 1800 km sq. that has a planning and strategic role and local municipalities that have implementation roles.
- Tax revenue is distributed from central government. Around 5% of tax generated in Istanbul remains in the city. The majority is tax revenue share according to population. Locally collected taxes are very low. Municipalities can borrow from each other and from abroad including bond issuance. Foreign debt repayment for Istanbul is BB. Istanbul could raise a property tax but the problem of illegality makes means that the municipality cannot tax a large proportion of its residents. Local autonomy on tax raising is very limited and capped by central government.
- Unfortunately national revenue sharing is based on population numbers and not on equalisation of disparity amongst different areas. In the short run this will not favour Istanbul but in the long run, it may provide different results, specifically in Istanbul determining the skill base of its migrants. A new draft law proposes tax share to be based on 75% population and 25% affluence.
- Local government only spends about 9.5% of total spending. Need to decentralise public expenditure.

Local & National interference particularly at the level of land holdings. Law was passed that Istanbul land holdings would be passed to the municipality, but sites such as the Haydarpasa port still remain as Ministry assets.

- Istanbul, an economy of cost competition, is now asked to enter an economy of creativity, knowledge and innovation.
- Planning mechanism reforms similar to the UK.
- Problem of public investment in infrastructure. Short term gains in period of growth
- Politics of the World City Hypothesis