

**CAPITAL ACCUMULATION, THE STATE AND  
THE PRODUCTION OF BUILT ENVIRONMENT: THE CASE OF TURKEY**

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**OSMAN BALABAN**

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submitted by **OSMAN BALABAN** in partial fulfillment of the requirements  
for the degree of **Doctor of Philosophy in City and Regional Planning  
Department, Middle East Technical University** by,

Prof. Dr. Canan Özgen \_\_\_\_\_  
Dean, Graduate School of **Natural and Applied Sciences**

Prof. Dr. Melih Ersoy \_\_\_\_\_  
Head of Department, **City and Regional Planning**

Assoc. Prof. Dr. H. Çağatay Keskinok \_\_\_\_\_  
Supervisor, **City and Regional Planning Dept., METU**

**Examining Committee Members:**

Prof. Dr. Ali Türel \_\_\_\_\_  
City and Regional Planning Dept., METU

Assoc. Prof. Dr. H. Çağatay Keskinok \_\_\_\_\_  
City and Regional Planning Dept., METU

Prof. Dr. Murat Balamir \_\_\_\_\_  
City and Regional Planning Dept., METU

Prof. Dr. Aziz Konukman \_\_\_\_\_  
Economics Dept., Gazi University

Assoc. Prof. Dr. H. Tarık Şengül \_\_\_\_\_  
Political Science and Public Administration Dept., METU

**Date:** 08.02.2008

**I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.**

Name, Last Name : Osman Balaban

Signature :

## **ABSTRACT**

### **CAPITAL ACCUMULATION, THE STATE AND THE PRODUCTION OF BUILT ENVIRONMENT: THE CASE OF TURKEY**

Balaban, Osman

Ph.D., Department of City and Regional Planning

Supervisor: Assoc. Prof. Dr. H. Çağatay Keskinok

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Under capitalist mode of production urban processes gain specific features and meanings. Fundamental is the relationship between processes of capital accumulation and the production of built environment. In this context, the capital switching theory claims that as profit levels are lowered, the probability that higher levels of capital tending to enter the property sector increases. In the first stage of a two-staged research, a macro-analysis on construction activities in Turkey limited to post-1980 period indicates that there no counter-cyclical relationship prevails between productive sectors of the economy and construction activities.

It is observed that the state intervention and its supportive policies regarding the production of built environment are the dominant determinants in the Turkish case. Based on these findings, a second focus was on the relationships between the state and capital engaged in the production of urban built environment. Various forms of state intervention, mostly as examples of deregulation and liberalization of planning controls and urban development legislation are identified at this stage. The major findings lead to the conclusion that urban processes are open to the profit-oriented and speculative efforts of political actors as well as the

economic actors. Hence the necessity of development of counter-strategies and policies as parts of planning and urban development system verified.

Keywords: capital accumulation, capital switching, built environment, construction sector and state intervention

## ÖZ

### SERMAYE BİRİKİMİ, DEVLET VE YAPILI ÇEVRE ÜRETİMİ: TÜRKİYE ÖRNEĞİ

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Kapitalist üretim biçimi altında kentsel süreçler özgün nitelikler ve anlamlar kazanırlar. Bunlar içinde temel nitelikli olan, sermaye birikim süreçleri ile yapıli çevre üretimi arasındaki ilişkidir. Bu bağlamda, sermaye aktarımı yaklaşımı, kar oranları azaldıkça yüksek oranda sermayenin gayrimenkul sektörüne yönelme olasılığının artacağını iddia etmektedir. İki aşamalı araştırmanın ilk aşamasında, Türkiye’de yapım faaliyetleri üzerine 1980 sonrası ile sınırlı bir makro-analiz, ekonominin üretken sektörleri ile yapım faaliyetleri arasında ters yönlü ya da karşıt bir ilişkinin bulunmadığını göstermiştir.

Devletin yapıli çevrenin üretimi özelindeki müdahalesi ve destekleyici politikalarının Türkiye örneğinde baskın belirleyici etmenler olduğu gözlenmiştir. Bu tespitlere dayanarak, ikinci yönelimimiz devlet ve sermaye arasında kentsel yapıli çevrenin üretimi özelinde gerçekleşen ilişkiler üzerine olmuştur. Bu aşamada, pek çoğu planlama sistemi ve imar mevzuatında kuralsızlaştırma ve serbestleştirme örneği olan çeşitli devlet müdahaleleri tespit edilmiştir. Temel tespitler bizi, kentsel süreçlerin ekonomik aktörler yanında politik aktörlerin de kar amaçlı ve spekülative girişimlerine açık oldukları sonucuna götürmüştür. Böylece

de, planlama ve imar sisteminin bir parçası olarak karşı stratejilerin ve politikaların geliştirilmesi gerekliliği doğrulanmıştır.

Anahtar Kelimeler: sermaye birikimi, sermaye aktarımı, yapılı çevre, yapım kesimi, devlet müdahalesi

To my parents;  
Kadriye and Ali Balaban



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## LIST OF ABBREVIATIONS

<b>CARs:</b>	Capital Accumulation Regimes
<b>CCP:</b>	Chamber of City Planners
<b>GA:</b>	General Assembly of TGNA
<b>GDH:</b>	General Directorate of Highways
<b>GMA:</b>	Greater Municipality of Ankara
<b>GNP:</b>	Gross National Product
<b>HDA Law:</b>	Housing Development Administration Law (No. 2985)
<b>HDA:</b>	Housing Development Administration
<b>IMF:</b>	International Monetary Fund
<b>ISI:</b>	Import Substituting Industrialization
<b>JDP:</b>	Justice and Development Party
<b>MCT:</b>	Ministry of Culture and Tourism
<b>MP:</b>	Motherland Party
<b>MPWS:</b>	Ministry of Public Works and Settlement
<b>PHC:</b>	Privatization High Council
<b>PPA:</b>	Presidency of Privatization Administration
<b>PTSE:</b>	Programme for Transition to a Strong Economy
<b>RPP:</b>	Republican People's Party
<b>SCZs:</b>	Special Conservation Zones
<b>TCA:</b>	Turkish Contractors Association
<b>TGNA:</b>	Turkish Grand National Assembly
<b>TSR:</b>	Turkish State Railways

## **CHAPTER 1**

### **INTRODUCTION**

Urban planning both as a discipline and a professional activity has a general claim that is to direct and control the production of urban built environment. The outcomes of a planning system, namely physical plans or development plans, are prepared to give alternative answers to two basic questions: what will be built and where will it be built. In other words, plans put forward the rules, standards and prohibitions concerning the construction facilities in an urban environment. According to the ideal planning situation, urban planning should be the determining force behind urban spatial change. Planners generally expect to see that decisions shaping the urban environment are selected among the proposals and alternatives prepared by them.

However the reality is much more complicated than this ideal situation in most capitalist societies. Especially in countries like Turkey where rapid urbanization has taken place with limited resources devoted to urban domain development of built environment has been rarely shaped by planning powers or programs. In such cases it is mostly the market forces that determine and frame the production of urban built environment. It is a fact that market forces as well as planning powers are the two basic factors concerning the production of urban built environment.

In this regard, the produced form of an urban built environment should be seen as the outcome of a “balance” established between planning powers and market forces. Although the combination of these forces within this “balance” may differ in accordance to time and place, the “balance” itself exists almost everywhere. There is the possibility to find a rich literature on discussing and revealing the examples of city building with little or no reference to planning. Planners’ complaint about being a passive viewer of the processes, through which cities are built, could be observed in many contexts. This feature of the reality led some

scholars or researchers to conclude that there is a distinct sort of planning, namely *trend planning* which just follows the market trends rather than achieving social and public interest (Pickvance 1982, 71). Thus in many parts of the world history of cities could be described as the history of struggle between planning powers and market forces.

Planners or scholars generally react in different ways when they face this very fact. Here two of these different ways, which are the most common ones in Turkey, will be mentioned. When market forces start dominating urban processes some planners or scholars direct their attention to current planning and urban development legislation and attempt to answer a basic question as if the problem resides in the failure of planning processes or in the inadequacies of legal framework. It is in no doubt that these scholars accept planning as a mere technical affair and planners as only professionals who could solve the problem. A second group of planners or scholars on the other hand point to the conditions and constraints under which planning is performed. They, in such a case, direct their attention to and investigate the political and economic forces constraining planning and planners. This group treats planning as also a socio-political process rather than a mere technical issue. Planners, accordingly, are not just professionals but at the same time socio-political actors.

The author of this thesis belongs to the second group concerning about the conditions of and constraints on planning powers. We assume that if conditions and constraints framing planners remain same, the impacts and results of better plans and better legislation would be limited. According to us, instead of viewing planners and planning in isolation from general forces especially the political and economic ones, efforts should be spent on specifying these forces as well as the ways of countering them. This thesis is built upon such a perspective. Hypotheses, research questions and the progress of the research were shaped by this perspective.

### **1.1. AIM OF THE THESIS, HYPOTHESES AND RESEARCH QUESTIONS**

Just like many of the theses and research in the fields of urban studies and urban planning, the aim of this thesis is to investigate the *dynamics of urban spatial change*. However our interest is limited to the context of Turkey. The broad nature

of this goal forces scholars to confine their studies to certain aspects and dimensions. To provide the thesis with such a specific focus, it is necessary to clarify the concepts mentioned and highlighted in this broad goal.

Throughout this study by the term of *urban spatial change*, the process of the production of built environment, including forms and volume of this production will be meant. Here we are not directly interested in population movements, demographic changes or the changes in the patterns of hierarchy of urban settlements. Our attention is directly oriented towards the process of the production of built environment in urban areas.

The term dynamics naturally refers to various aspects concerning cities like social, political, economic, cultural, natural, etc. Among those aspects here we confine our research only to political and economic ones. As a result of our normative position, we accept the idea that political and economic processes which refer to the creation of economic surplus and the (re)distribution of it are the dominant forces in capitalist societies. While economy refers to internal organization of capital accumulation process politics determines the mechanism through which rules and regulations concerning this process are set. In sum, the process of capital accumulation and its political counterparts should be accepted as essential factors in determining and/or constraining the production of built environment.

The foregoing discussion helps us to clarify the purposes of this study. In the broadest sense, this thesis aimed at *investigating the process of the production of built environment and explaining it with reference to capital movements in terms of accumulation, concentration and transfer of capital*. To figure out the orientation of the study in a systematic way four fundamental objectives are defined.

This study has the following four fundamental objectives:

1. To explore the relationships between the processes of capital accumulation and the production of urban built environment in Turkey,
2. To identify the original and distinct features of Turkish experience throughout this process,

3. To contribute to the related theoretical discussions and arguments in the light of these findings.
4. To develop policy implications and suggestions concerning the planning controls and development system in Turkey.

There are number of studies and arguments explaining the formation and transformation of urban built environment in Turkey in connection with economic processes and capital movements. For instance, Balamir (1975, 1982 and 1992) stresses the role of property relations, which were reorganized “in a context of low rates of capital accumulation”, in city building in Turkey. Moreover there is also a general consensus about defining post-1980 period of Turkish urbanization in relation with economic processes especially with capital accumulation. Many scholars and planners assert that especially after 1980 in Turkey, large capital groups involved in the production of urban built environment as an alternative channel of investments due to the problems and limitations of export-oriented growth model. According to Türel (1995, 13) some large firms, especially the ones which had undertaken the construction works of housing cooperatives, entered into speculative house building sector after 1984. Tekeli (1991b) labels post-1980 period as “a transition from the city of petty capitalists to the city of corporate capitalists”. In Şengül’s (2001) classification post-1980 period of Turkish urbanization is defined as “urbanization of capital”. We, in this thesis, accept these statements and arguments as our starting hypothesis and attempt to test this well known and widely accepted hypothesis throughout this study.

In order to test this hypothesis we will attempt to answer a major research question. This question can be defined as follows: *to what extent and in what ways the process of capital accumulation and the production of built environment are interrelated in the context of Turkey*. In other words, we will inquire the *interaction between capital accumulation processes and the production of urban built environment*. Literature survey and theoretical discussions, which we have done in the second chapter, indicated that “urban space” should not be accepted as a passive ground of capitalist economic processes. Instead, there is a continuous interaction and interrelation between them. In this context, Neo-Marxist explanations on urban provide essential concepts and framework to investigate these interactions and interrelationships. Among those explanations,



capital switching approach formulated by Harvey and developed by several authors seemed to us as the most appropriate theoretical framework for this study. According to this approach, urban processes, especially the production of “urban space”, constitute an alternative and profitable field of investments into which excess capital is switched in case of inevitable problems of capitalist accumulation. In the course of the discussion on the related theoretical approaches, departing from our starting hypothesis, the major hypotheses of this study are formulated as follows:

**Starting Hypothesis:** There is a significant flow of capital from primary to secondary circuit of capital accumulation in Turkey. Especially after 1980, substantial amount of capital is switched into the production of built environment as an alternative and profitable field of investments.

**Hypothesis 1:** Capital switches between primary and secondary circuits in Turkish context reflect a counter-cyclical relationship between these two circuits. In more concrete terms, the rise in construction activities or capital switches into secondary circuit is related to a fall or a decline in primary circuit activities. In this context, secondary circuit provides the dominant and preferential alternative for the primary circuit.

**Hypothesis 2:** In the course of capital switches in Turkey, state intervention in terms of supportive and necessary policies and decisions plays an essential facilitating role. In other words, state contributes crucially to the process of capital switches by means of various legal, institutional and financial regulations and policies.

**Hypothesis 3:** Ground rents and patterns of landownership are the other significant influential factors behind capital switches between primary and secondary circuits in Turkey.

In order to test these hypotheses we carried out a two-staged research. In the first stage, quantitative and qualitative developments and progress in the production of built environment were analyzed. This analysis is entitled as a “macro-analysis”. Since we accepted the progress in construction activities as a major indicator of capital switches into the production of built environment the macro-analysis was

focused on the development of Turkish construction sector during post-1980 period. By doing this, we intended to define the fluctuations of construction activity constituting different growth and decline trends. Besides, we also aimed at identifying the dynamics and factors affecting or determining these fluctuations and trends. In other words, the first stage of our research, which is the macro-analysis, was focused on determining the dynamics of growth and causes of decline observed in case of Turkish construction sector after 1980.

Various kinds of secondary data directly and indirectly on construction sector were used to conduct the macro-analysis. In addition to the secondary data analysis we also benefited from the findings of research or studies made by key organizations and actors within the sector. At the end of the macro-analysis, it became clear that there has not been an uninterrupted growth and stability for the sector in the post-1980 period. Instead, there occurred some growth and decline periods, depending on the macro economic balances. We observed that there is not a counter-cyclical relationship between primary and secondary circuits in the case of Turkey. Moreover macro-analysis enabled us to conclude that there exists a close relationship between state's support and construction sector's activity. In other words, it could be claimed that rather than an overaccumulation problem, the state intervention and its supportive policies towards the construction sector are one of the most influential determinants of the channeling of investments to built environment.

In the light of these findings, we have taken one step further and intended to make a detailed analysis of the relationship between the state and capital around the production of urban built environment. In the second stage of our research we concentrated on identifying specific roles performed by the state and the impacts of these roles on the growth of investments in built environment in the Turkish context. As it was necessary to make such an inquiry by focusing on a boom period, we preferred to concentrate specifically on post-2002 period. The macro-analysis also revealed that the long decline of 1990s has ended by 2003 and a new construction boom in Turkey has started since then.

In the second stage of the research we predominantly focused on our second hypothesis. As macro-analysis provided us crucial findings to justify the second hypotheses we preferred to investigate how and in what ways the state has

supported and contributed the recent growth in construction activities. By considering the theoretical discussions on the conditions of capital switches in terms of the roles of mediating institutions and the state, we formulated additional hypotheses to be tested in the second stage of the research. These hypotheses are formulated as follows:

**Hypothesis 4:** The better the opportunities and policies provided by the state the massive the capital would be switched into the secondary circuit.

**Hypothesis 5:** Bypassing of restrictive planning regulations and decisions, relaxing of strict urban development controls are the common and widespread forms of state support and intervention. In other words, deregulation and liberalization of planning regulations and urban development controls occur frequently during when capital in search of higher profits is switched into the production built environment.

In order to test these hypotheses a final research was made. The time interval for this research was determined as post-2002 period which also comprises the recent construction boom. The final stage of our research was based on the investigation of all the legislative actions made by Turkish Grand National Assembly and of some essential legal arrangements made by the related public institutions after 2002. In this stage of the research we surveyed and checked all the laws approved by the parliament after 2002. By doing this, we expected to find out the laws by which current legislation framing the production of built environment were either amended or renewed. After having determined these laws along with other essential legal documents such as by-laws all of them were examined comprehensively in order to find out the legal arrangements made in them. This inquiry revealed that hundreds of new legal changes and arrangements concerning the production of built environment were made during the recent construction boom. Moreover through these legal arrangements different forms and examples of deregulation and liberalization measures were introduced. Totally 198 legal arrangements were identified as different examples of deregulation and liberalization in 89 laws and by-laws approved or issued. It is worth asserting that planning system and mechanisms of development control came under severe challenges by the government during this period both on legal and institutional contexts. It could be claimed that the main driving force of these

challenges has been to remove the barriers obstructing immediate investments in the built environment when high profits are possible especially in the large metropolitan cities.

Current planning and urban development system in terms of planning powers has been fragmented either on the basis of particular projects or on behalf of particular institutions. Our investigation on recent legal arrangements also revealed that these arrangements were directed and concentrated on certain domains and fields, which could be accepted as new opportunities for investment and channels for circulation of capital. We also made a comprehensive analysis of the modifications and arrangements concerning these domains as well as the real implementations, projects and investments within them in the final stage of our research.

## **1.2. SCOPE AND STRUCTURE OF THE THESIS**

The thesis consists of seven chapters. Following the introduction the **second chapter** lays out the theoretical framework of the study by critically evaluating the capital switching approach including the arguments of Harvey (1973, 1982 and 1985), Feagin (1987), King (1989), Haila (1991), Beauregard (1994), Mingione (1974, 1977), Lamarche (1976), etc. The main theoretical argument that helps us to understand urban process with reference to capital accumulation is the circuits of capital argument developed by Harvey (1985). We discussed this argument as the mainstream one within capital switching approach. In addition to the mainstream debate we discussed the related studies and research aiming either to extend or to criticize the theoretical propositions of Harvey. The arguments and explanations discussed in chapter 2 led us to conclude that the relationship between capital accumulation and urban processes could not be properly understood by employing a deterministic or functionalist reasoning. Rather it is necessary to develop a dynamic conceptualization which allows us to take various factors and contingencies into account. The reader could find an example of such a conceptualization at the end of Chapter 2.

**Chapter 3** involves an analysis of certain dimensions of the economic and spatial structure of Turkey. As this study aims to analyze capital switching arguments within the context of Turkey it seemed us necessary to make an evaluation

regarding the recent history of urbanization in Turkey in relation to capital accumulation regimes. In order to do so, we focused on the two recent major periods, namely 1960-1980 and post-1980 periods. As the beginning of rapid urbanization in Turkey dated back to late 1950s, we decided to confine our analysis regarding the context only to these two periods. This analysis led us to conclude that in each of these periods not only different capital accumulation regimes were implemented but also different patterns of urban development were observed. While petty developers and urban dwellers had been the active agents of urban spatial formation in the first period actors operating within the production of urban space varied and the volume of this production had grown in the second period.

The **fourth chapter** of the thesis comprises the first stage of our research that is the macro-analysis on Turkish construction sector. This inquiry was focused merely on post-1980 period and aimed to define the development process of construction sector in an historical manner. By doing this, not only the different growth and decline trends in construction activities but also the dynamics or factors causing these trends were determined. At the end of the fourth chapter the reader will see that a close relationship exists between the state's support and the progress achieved by construction sector.

**Chapter 5** establishes the link between two stages of our research. This chapter includes a detailed and a close examination of post-2002 period in order to check the recent construction boom not only quantitatively but also qualitatively by largely drawing upon various types of secondary data and findings of related empirical studies.

**Chapter 6** comprises the second stage of our research. This stage covers the investigation of all sorts of legislative and regulation activities made to modify or renew the legal and institutional framework concerning built environment after 2002. The major aim of this chapter has been to check whether or not these modifications in existing legislations could be accepted as different forms and examples of deregulation and liberalization. Therefore in this chapter the reader will find the classification and frequencies of all the recent legal arrangements deregulating and liberalizing the current planning system and development controls. Besides, this chapter provides a comprehensive analysis of the fields or

domains on which recent legal arrangements are oriented and concentrated. It is worth mentioning that these domains appeared to be new opportunities for investment and new channels for circulation of capital within secondary circuit of capital accumulation.

**In the concluding chapter,** the reader will find our final evaluation on the production of urban space with reference to capital accumulation process in Turkey especially during the post-1980 period. We attempt to assess all the findings and discussions made throughout this thesis in a general sense. This assessment aim to present whether or not or to what extend the hypothesis set at the beginning is justified and how the research questions posed at the beginning and throughout the study is answered. There is also an overall evaluation in the concluding chapter. This evaluation is actually a review of the theoretical discussions in the light of the findings of our research. We attempted to make some contributions to the theories and arguments which we classified as capital switching approach in this thesis. The reader will also see our recommendations for further studies and research as well as some policy implications concerning the planning system in Turkey.

## **CHAPTER 2**

### **ECONOMY AND THE URBAN PROCESSES**

#### **2.1. INTRODUCTION**

The cities are multi-dimensional and complex structures. On one hand they are the places for various functions like economic, social, spatial and cultural functions. On the other hand they host a heterogeneous society formed by different classes each has their specific visions upon and expectations from that city. These classes all together are the actors related to those functions existing in that city. So it is not easy to conduct a research contributing to urban studies unless one confines himself to certain dimensions and elements of the subject. This study confines itself to the relationship between capitalism as an economic system and the city. In more concrete terms, this thesis aims at investigating how the production of built environment is related to and shaped by the capitalist economy.

Among various aspects of the urban processes we focus on economy as the foremost dimension of it. It is not only an essential function of a city but also is related to one of the most powerful actors and groups of that city. In other words we depart from the idea that economy is an important aspect of a society that has substantial impacts on the given society and the space on which that society live. We would like to notify that the previous statement should be conceived in terms of interrelation rather than a determination. In contrast to functionalist point of view, the main aim of this thesis is to analyze how spatial change and the production of built environment are linked to the economic system as well as the changes in that system.

In social sciences several theoretical approaches and paradigms, which at any time are used by different researchers for exploring different research questions, exist concomitantly (Bassett & Short 1980, 4). It is also a well-known fact that each of these approaches and paradigms claims to explain the reality best by

operating their rationale (Pickvance 1984, 33). That's why in social research the choice of the theory is very much related with the aim of the research, specifically with the research questions. As each approach or paradigm sheds some light on the reality and could not explain that reality in its entirety it is essential to select the one which fits the aim of the research best.

In the following section of this chapter, different theoretical approaches and arguments, each of which is an application of different social theories to the analysis of urban process, are going to be introduced. Throughout this introduction the related approaches and arguments will critically be evaluated in terms of their relevance with the initial aim and research questions of this thesis. Following this introduction, the relevant approach or the argument will be evaluated in detail. Final section of this chapter will put forward our research questions and hypotheses.

## **2.2. DIFFERENT THEORETICAL APPROACHES ON THE URBAN PROCESS**

Urban, globally, has been an interesting and popular analytical level in academic history (Hill and Feagin 1987, 156). Throughout that history various theoretical approaches and arguments regarding urban space and its production processes were developed. Although all of these approaches and arguments aim at explaining the structure of cities differences among them are results of the elements they employ (Orum and Chen 2003, 27). In other words, differentiation of theoretical approaches about urban is based on how they conceptualize urban development (Smith and Tardanico 1987, 87). Below; the outstanding approaches regarding the nature of cities and the patterns of their development are introduced and evaluated.

### **2.2.1. Chicago School: Classical Urban Thought**

The term "classical urban thought" is used to refer to the ecological theories of Chicago School (Keskinok 1997, 13-14; Hill and Feagin 1987, 156). Classical urban thought as a paradigm derived from the experience of a particular city namely Chicago by the studies of Robert Park and his colleagues. They turned their attentions to the new population groups in the city and examined the ways that groups attached to specific places within the city (Orum and Chen 2003, 28).



The main contribution of classical urban thought has been the conceptualization of urban development by using an analogy between living organisms and human settlements (Keskinok 1997, 13-14; Hill and Feagin 1987, 156). Chicago School scholars attempted to connect the patterns of adaptation of plants and animals to their surroundings and the patterns of settling of human beings within a city and social institutions of that city. They explained the development of life in urban areas as being parallel to the development of life within the ecosystem, which includes a *competition* among plants and animals. According to them human beings in urban areas are in *competition* with each other, just like animals, in order to occupy the right place within the city which suits their interest best. This competition ends up with the *invasion* of a particular place by a particular population group and that group succeeds the former one till the next invasion occurs. So according to classical urban thought, *competition*, *invasion* and *succession* are the key concepts explaining the formation and change of land uses and spatial forms in a city (Orum and Chen 2003, 29).

These key concepts enabled scholars of Chicago School to explain hierarchies of specialization and domination between human settlements in accordance with the location and spatial form of the places occupied by these settlements (Hill and Feagin 1987, 157). Thus, social relations and forces in their analysis are reified as the relations between spatial forms.

Although classical urban thought had great influence over the urban studies till 1960s it started to loose its explanatory power afterwards. Criticisms against this paradigm revealed its weaknesses. As arguments of this paradigm derived from a research conducted in a single city, concentric pattern of urban development did not fit the process of development in various cities (Orum and Chen 2003, 32). Another essential problem attributed to classical urban thought is related to the way it conceptualized the power and economic relations within cities. Cities were conceptualized as places autonomous from economic and political relations (Keskinok 1997, 14; Keskinok 1998, 92). It was neglected that the competition for land in cities is also shaped by power relations and economic institutions which are impossible to observe in competition among plants and animals. Therefore cities were accepted and argued as “autonomous and non-political realms”

(Keskinok 1997, 14). In the light of this brief discussion it is appropriate to conclude that we cannot derive essential insights from classical urban thought.

### **2.2.2. Confrontation between Two Theoretical Approaches: Weberian Explanations vs. Neo-Marxist Explanations of Urbanization**

In late 1960s and early 1970s new approaches challenging each other emerged in the field of urban studies. Authors, inspired by Marx's analysis of capitalism, attempted to develop theoretical approaches by updating Marxist concepts in order to understand and explain urban and regional phenomena within capitalist societies (Pickvance 1995, 39). As Marx himself neglected the spatial dimension of capitalist mode of production and accumulation some Marxist authors like Henri Lefebvre, Manuel Castells, David Harvey and Enzo Mingione attempted to fill this gap. Lefebvre's work (1974) namely "Production of Space", Harvey's (1973), Castells's (1977) and Mingione's (1981) works respectively, "Social Justice and The City", "Urban Question" and "Social Conflict and the City" are the notable studies discussing how urban space is produced (socially) under capitalism. Scholars in the Weberian tradition like Rex and Moore (1967) and Pahl (1975) challenged Marxists by claiming that features they attributed to urban and regional phenomena could not be assumed as the outcomes of capitalist mode of production since those features were also observable in cities of socialism (Pickvance 1995, 39). These scholars attempted to relate urban and regional issues to political institutions like bureaucracy, state, etc. rather than economic level.

The emergence of both Neo-Marxist and Weberian approaches should be accepted as a switch of focus in urban studies. The timing of this switch was not accidental. It occurred at a time when many advanced capitalist countries were experiencing important changes. Postwar economic boom in European countries ended during the second half of 1960s. Social conflicts and contradictions between different classes, which were covered during the boom, started to become obvious in the late 1960s (Bassett & Short 1980, 3). Famous worker and student riots of 1968 organized in core countries and in peripheral countries were the examples for rising social movements underlining these conflicts. Under these circumstances theoretical approaches like Neo-Marxist and Weberian theories

focusing on social conflicts and contradictions gained more attention not only in social and political sciences but also in urban studies (Bassett & Short 1980, 3).

These two approaches explain urban processes in very different ways. Neo-Marxists emphasize economic system as being the primary and dominant institution determining the spatial and social institutions. Among the internal dynamics of the economic system they mainly focus on the “private accumulation of capital as the fundamental rationale”. However Weberian scholars did not attribute an essential feature to economic system. Instead they emphasized the role of the state (Pickvance 1984, 33). These two approaches, starting from the Weberian one, are introduced and evaluated in the following two parts.

#### 2.2.2.1. Weberian Outcome: Urban Managerialism

In order to introduce the Weberian approach namely urban managerialism it is necessary to discuss the initial efforts and the situation, out of which this approach was developed. Urban Managerialism developed in Britain as a result of some specific developments that have taken place in this country. Pickvance (1984, 36) mentions that “two important facets of British Society led to the interest in urban managers”. He defines these two facets as; the establishment of welfare state which principally “allocates resources according to need not status” in post-war periods and the immigration of Indians and Pakistanis during 1950s and 1960s to overcome the post-war labour shortage. Under such circumstances like the other portions of the population, academics were also wondering if the immigrants would equally benefit from the institutions of welfare state such as council housing policy in cities (Pickvance 1984, 36).

Rex and Moore (1967) conducted a study on the access of immigrants to council housing in Birmingham City. They revealed that “coloured immigrants” were mainly tenants rather than being owner-occupiers due to their exclusion from council housing (Pickvance 1984, 36). They mentioned three sources of this exclusion as follows; “racial discrimination by housing visitors judging the housekeeping standards of applicants, eligibility rule according to which five years of residency is required for applying to council housing, length of residence as a criterion for rising in the applicants list” (Pickvance 1984, 36). As this phrase clearly shows the inequality in the field of housing was related to the bureaucratic

processes and the functioning of local state institutions and officials. This reflects the Weberian character of the study. According to Pickvance (1984, 37), two features of this study reveals its Weberian character. First of all, the central concern of the study was power which is “conceived of as deriving from institutional position rather than economic class”. Secondly “this state exercised power created a separate dimension of stratification distinct from that deriving from position in the labour market”. So Rex and Moore (1967) argued that people could have very different positions in the field of housing no matter how close and identical their class position (Pickvance 1984, 37).

This study constitutes the initial efforts of urban managerialism approach. Arguments developed throughout this study are extended by Pahl (1975). He claimed that public and private sector officials are urban managers whose decisions concerning resource allocation determine the life chances of people apart from their class position. In other words, the independent variable causing the inequalities in urban resource allocation is asserted as the urban managers and their values, professional attitudes, etc. (Pickvance 1984, 37-38). So the issues in urban areas such as housing problem, inadequate provision of urban services, etc. were conceptualized without any relationship with the capitalist mode of production. In other words, the emergence of these issues was kept autonomous from the socio-economic system.

Urban managerialism based on Weberian tradition challenged not only Neo-Marxist approach but also classical urban thought by conceptualizing urban as an autonomous but political realm. Urban is conceived of being as a political entity since access to urban services and allocation of resources are politically managed and determined by the bureaucrats working at the urban level. However it is also assumed as an autonomous entity since any kind of relation between economic and political levels is refused (Keskinok 1997, 15-16; Şengül 2001, 14-15). In other words, urban managerialism conceptualized “urban as an autonomous dimension cut off from the economic or work sphere” (Pickvance 1984, 34). Thus within such a way of thinking inequalities derived from the resource allocation in urban areas are explained as a reflection of the professional values of urban managers as well as their failures and some spatial constraints (Pahl, 1975; Pickvance 2002, 188).

Urban managerialism has been influential on various studies concerning the functioning of public bureaucracies, delivery of urban services and inequalities of access to those services (Pickvance 1984, 34). However it seems irrelevant for our study because urban is conceived of as autonomous from the economic system and processes.

#### 2.2.2.2. Neo-Marxist Approach

Several authors extended Marx's analyses of capitalism and updated Marxist concepts in order to understand and explain urban development especially after 1970 (Orum and Chen 2003, 32). Among these authors the outstanding ones are Lefebvre, Castells, Harvey, Mingione and Lamarche. As an introductory remark it could be mentioned that these authors intended to "stress the interconnection between urban and economic phenomena" (Pickvance 1984, 34). According to the main arguments developed by them urban has a special meaning under capitalism and the production of urban space is functional and instrumental for the survival of capitalist accumulation (Harvey 1985; Lefebvre 1976).

In contrast to classical urban thought and urban managerialism, Neo-Marxist approach focuses on both economic and political processes in order to explain the production of urban space. Within this approach there is an attempt to link urban development closely with class struggle, capital accumulation, uneven development and the state (Keskinok 1997, 17). Neo-Marxist approach generally attributes some specificity to urban under the capitalist mode of production. According to these views, production of urban space and urban spatial change has integral roles in capital accumulation and in the survival of capitalist mode of production.

Neo-Marxist explanations of urbanization entail a vast variety of perspectives with differentiated conceptions of urban space. This variety is related with the holistic character of the theory. Although Marxist theory poses research questions related to the system as a whole, the difficulty of capturing the system in its entirety led Neo-Marxist authors to emphasize different elements of the system like capital accumulation, class struggle and the state (Pickvance 1984, 34). In what follows the outstanding arguments within Neo-Marxist approach developed by Lefebvre, Castells, Mingione and Harvey are going to be examined.

The motive behind Lefebvre's work was the neglect of space within classical Marxist theory especially within the writings of Karl Marx himself (Orum and Chen 2003, 34). Lefebvre (1974), attempted to relate the survival of capitalism to spatial issues. For him, one of the main sources of reproduction of capitalism is the "production of space" which satisfies the necessary requirements of that reproduction. In his analysis this claim is not only limited to capitalist mode of production. For him each production mode, in order to reproduce itself, has to create its own space which not only serves for but also reflects the relations and social relations of that production mode. So transformation from one production mode to another also means a transformation from one spatial organization into another (Lefebvre 1974). In capitalism, for instance, space as a social product serves for biological reproduction of human, reproduction of labour power and reproduction of social relations of production.

So Lefebvre (1974) conceptualizes urban areas not only as a physical ground for human actions but also a social product which could shape the human action. In other words Lefebvre "moved the analysis and discussion of cities away from the notion of place to the concept of space" (Orum and Chen 2003, 33). Lefebvre's work is abstract and at a high theoretical level. In this manner his works was not very much useful to guide concrete studies and research. However the links which Lefebvre set up between mode of production and production of space and the idea of accepting space as a social product had great influence over the other Neo-Marxist authors willing to conceptualize cities within capitalism.

Castells (1977) provided another influential approach to understand "urban" by employing the basic concepts and elements of Marxism. Castells (1977), unlike Lefebvre, confined himself to some specific elements of capitalism like class struggle and reproduction of labour power. He conceptualizes urban as the space where reproduction of labour power was realized via the means of "collective consumption" (Castells, 1977). The concept of "collective consumption" is one of the essential contributions of Castells. What is meant by this concept is the consumption which is performed at societal level and requires state intervention (Orum and Chen 2003, 38). In more concrete terms, urban processes for Castells (1977) cover the creation of various means and media of collective consumption through which labour power, an essential mean of capitalist production, is

reproduced. State intervention is necessary in these processes since the inadequacy of means of collective consumption could endanger the capitalist system on the basis of class struggle around collective consumption issues. So for Castells (1977) class struggle, collective consumption and the state are the key elements of capitalism which determine the process of production of urban space.

Mingione (1974, 1977) has made essential contributions to Neo-Marxist explanations of the urban processes. He (1977, 89) aimed at developing a "Marxist analysis of the social problems of urban and regional development". He starts his discussion by mentioning the significant points highlighted by the critiques of traditional urban sociology. According to him (1977, 90) there is a continuous interrelationship between social relationships and their territorial basis. In other words, "every social change has effects on the structure of the territory" and likewise, "social relationships in general will be conditioned by the territorial characteristics". These assumptions enabled him to state that social relationships and their territorial aspects and connections should be analyzed by means of a more general and a grand theory, such as Marxism.

Mingione, unlike the other Neo-Marxist authors, uses the term "territory" rather than "urban space" or "space" while referring to the spatial dimension. In his argument, the main element of capitalism, which is used to explain territorial processes, has been capital accumulation. Mingione (1977, 91) distinguishes three different aspects of territory in order to explain the relationship between territory and capital accumulation.

First of all, Mingione (1974, 247-248; 1977, 91-96) emphasizes that territorial imbalances or uneven development between different territorial units are the structural and inevitable results of capitalist relations of production. According to him, development of capitalist accumulation or the expansion of capitalist relations of production create various forms of territorial imbalances and contradictions. Among them, contradictions between town and country, center and periphery, developed countries and underdeveloped countries are the most common and known ones. Therefore the first field for a Marxist analysis of urban development suggested by Mingione is the examination of imbalances and division of labour between territories.

Secondly, Mingione (1977, 92) stresses that territory is also “a means of production”. It is “the initial basis” for agricultural production in rural areas and “the prerequisite for building” in urban areas. This feature of territory makes landownership and control as an essential component of social relationships in capitalism. However unlike traditional and classical theories of rent, Mingione (1977, 92) conceptualizes “land income and speculation” as complementary and useful components of capitalist accumulation. According to him, in the course of capitalist development ground rents and the efforts to create and increase ground rents such as land and building speculation, has become functional for conservation of capitalist relations and for ensuring the capital accumulation.

Thirdly, according to Mingione (1977, 93) territory is “a consumer good in short supply”. He provides historical examples to relate the third aspect of territory with capital accumulation processes. Mingione (1974, 250) discusses that especially during the second stage of capitalist accumulation, land speculation and construction activities have effectively functioned as a system or tool to control and repress the working class in urban areas. In this stage, during which production was concentrated in large factories and capital became more bounded to the place, working classes had enough opportunities to organize themselves widely and to fight for better living and working conditions. This means that during the second stage of capitalist accumulation workers’ attempts and struggle to increase their share in total surplus were intensified. Mingione (1974, 250) asserts that ruling classes have benefited from land speculation and construction sector in satisfying and moderating the demands of working class. According to him, losses of workers within the factory (income, etc.) were attempted to be recouped by means of land speculation such as provision of housing to working class.

Third aspect of the territory is also discussed as a field out of which essential problems and several forms of class struggle emerge. However these problems and struggles are accepted as inevitable and difficult to solve. Mingione (1977, 100-102) discusses housing problem in this context. Housing is a major and fundamental way of land consumption. It has to be provided to the society at reasonable prices and acceptable conditions in order to increase the amount of productive labour force. However the increase of productivity might threaten class relationships and current status quo. For this reason in a capitalist society the



resources are distributed by the ruling classes in such a way to achieve repressive control and domination. This means that there always a conflict around the distribution of territorial resources occurs in capitalist societies. According to Mingione, issues and struggles around housing and land consumption constitutes another field for a Marxist analysis of urban development and they should be analyzed as part of wider class struggles and capitalist relations.

David Harvey, according to us, developed the most influential arguments on urban processes under capitalist mode of production. Harvey (1985) mainly used the concepts of class struggle and of capital accumulation throughout his analysis. Harvey's argument is based on the idea that urban is not only a material basis for capitalist relations and reproduction of labour power, but also an alternative channel for capitalists to enlarge their profit-seeking efforts. In other words, production of urban space, for Harvey (1982, 1985), is a channel into which profit-oriented investments could be switched. Harvey (1985) extends this argument by distinguishing three different circuits of capital accumulation.

The primary circuit of capital accumulation is the one where basic processes of capitalist production and surplus value creation are performed. The secondary circuit is the production of built environment and the tertiary circuit comprises the investments in science, technology, education, health, etc (Harvey 1985; Orum and Chen 2003, 42). Harvey asserts that secondary and tertiary circuits provide profitable investment opportunities, which can be used in case of an overaccumulation problem, arise in the primary circuit. In this process he mainly stresses the necessary roles of the state and financial institutions to support individual capitalists to perform the capital switches (Harvey 1985). In sum, Harvey explains the production of urban space not only as the production of the necessary physical environment for capitalism but also as the production of a "safety valve" where investments and surplus capital could be switched under some conditions.

Like Harvey, Lamarche (1976) also sees urban processes in relation to capital accumulation. For Lamarche (1976, 85-86) cities develop in accordance with "the requirements of the circulation of capital and commodities" and they are governed by the "laws of capital circulation". In this argument cities are conceptualized as places or grounds which are planned and built in order to meet the requirements

of capitalist production and circulation relations. Among the elements of capitalism Lamarche (1976, 86) mainly stresses the circulation of capital in the analysis of urban process under capitalism. The basic idea behind this argument is that “capital is only productive in the sphere of production” so the length of time in the circulation of capital should be minimized in order to put back the capital in sphere of production in short time. Since it is for the interests of capitalists who are seeking to increase profits (Lamarche 1976, 88). Two things are mentioned as essential in this argument to reduce the circulation time of capital. The first is the division of capital into three types each of which has a specialised function in this process. The second is the production of urban space (Lamarche 1976, 88-91). So the main function of cities in capitalist societies is not only to facilitate the circulation of capital but also to accelerate it.

Although they both focus on capital accumulation to understand urban process under capitalism unlike Harvey, Lamarche conceptualizes urban only as a necessary physical and spatial organization for circulation of capital. However instead of conceptualizing city as a gross category like Harvey, Lamarche focuses on different land use categories in relation to their rent creation capacities within cities and hence he tries to explore their relevance to the interests of property capital. Despite the differences between them, the two arguments seem us as compatible and complementary arguments.

In conclusion none of the Neo-Marxist explanations discussed in this section is free from criticisms. Generally, criticisms against Neo-Marxist approaches generally emphasize their problems of determinism and functionalism (Keskinok 1997, 17). Some authors criticized Neo-Marxist approaches for reducing consciousness, politics and culture to the logic of capital accumulation (Smith and Tardanico 1987, 89; Gottdiener, 1985). However when the purposes of this thesis are considered Neo-Marxist paradigms especially the arguments developed by Harvey, Mingione and Lamarche seems relevant as a starting point.

### **2.2.3. City as a Growth Machine**

Another argument to be discussed here is the “city as a growth machine” argument of Logan and Molotch. This argument aimed at extending the pluralist approach dominated urban politics in United States. Logan and Molotch extended

the famous pluralist question “who governs” by asking an additional one, “for what” (Logan and Molotch 2002, 464). They argued that “local elite groups”, for whom the city is important in terms of its exchange values rather than use values, are always in search of implementing strategies aiming to achieve urban growth (Logan and Molotch 2002, 464; Orum and Chen 2003, 45). For these groups, “city is a growth machine that can increase aggregate rents”. It is assumed that a consensus around growth issues always occurs among these “local elite groups” and this consensus helps them to “eliminate any alternative vision of the purpose of local government or the meaning of the community” (Logan and Molotch 2002, 464).

Logan and Molotch (2002), argue that the consensus over growth issues, in most cases, evolves into a “growth coalition” who continuously works for the expansion of city for its self-interest (Orum and Chen 2003, 45). The participants in this coalition are local groups whose interests are very much related with the changes in land-use decisions. Among these, local business people especially those engaged in real estate and property development sectors emerge as the major participants (Logan and Molotch 2002, 468). Class of rentiers involved in trading urban land, local media, public and private sector officials are also mentioned as the key participants of the “growth coalition” (Orum and Chen 2003, 45).

Logan and Molotch (2002, 468) assign a special importance to local states in their argument. For them efforts concerning the growth of a city could not be performed unless local government is concerned with and involved in that growth agenda. Involvement of local governments to growth efforts is seen as a key function of it.

The main weakness of this argument is its limited structure. This limitation is in two terms. First of all, empirical bases of this argument are the cities in the United States. Secondly, the “fundamental rationale” of this argument explains mainly the process of growth in newly developing American cities (Orum and Chen 2003, 46). However despite these limitations this argument provides essential insights to discuss the profit seeking efforts of local actors in and through the production of urban built environment. Besides it also highlights that these efforts could be legitimized easily if they are based on the concept of growth. As the concept of growth mostly evokes local economic development profit seeking efforts such as land speculation, large-scale urban projects, etc. are welcomed and supported by

the society. In more concrete terms, this argument helps us to understand that when profit seeking efforts of capitalists related to the production of built environment are justified on the grounds of “growth” local political arena could be dominated and alternative visions could be eliminated.

#### **2.2.4. Global City Perspective**

The approaches and arguments introduced up too now date back to late 1960s and 1970s. However there are recent arguments discussing urban processes and development. The major one of these arguments is in no doubt that the global city perspective, which focuses on the impacts and influences of globalization on cities (Orum and Chen 2003, 55). Works of Hall (1966) and Friedmann (1982, 1986) constitute the historical background of global city perspective. They both argue that a hierarchy of cities occurs on the global scale and cities, which are working as the command centers of the world economy, are located on the top level of this hierarchy.

Contemporary studies within global city perspective are in continuation with these works. Among them, only the work of Sassen (1991) will be introduced here. Sassen’s major intention has been to introduce cities into the analysis of economic globalization. Sassen accepts global cities as places serving best to the requirements of global economy via the facilities and population they host. Therefore she examines global cities in order to understand and explain the major elements of global economy and the relationship between those elements (Sassen 2002, 161-163).

Sassen (2002, 162) starts her analysis by asking the question of “whose city” for global cities. She argues that global cities are places where globally acting economic actors and disempowered social actors (immigrants, poor, etc.) are in contestation with each other. This is argued as an inevitable consequence of the economic structures and processes in global cities. Global cities not only create high profits and gains for actors engaged in information and service economy but also bringing a decline in traditional economic sectors which employ the disempowered social actors (Sassen 2002, 162-4; Orum and Chen 2003, 56).

According to this perspective global cities are places where top-level control and management operations, finance and specialized service functions including banking, accounting, insurance, computer and information processing as well as real estate are located (Sassen 2002, 163; Orum and Chen 2003, 56). Sassen (2002, 163) argues that all these functions and sectors require a vast range of and high quality infrastructure and telecommunication facilities. However she also mentions that these facilities do not come as a part of the global economy. Global cities must provide these facilities since they are necessary to host global capital. Besides, provision of such a layout is not limited to the spatial requirements of economic entities. "New highly paid professionals" demand for luxurious and safe housing areas, which also appear to be the part of this physical layout in global cities. Thus housing construction, which provides an essential potential for overpricing, constitutes another opportunity for real estate developments in global cities (Sassen 2002, 164).

Sassen (2002, 165) also discusses the local consequences of taking part in globalization process. The key word explaining these consequences is "inequality". It is argued that two different camps always exist side by side in global cities. On one hand there are certain economic sectors gaining extremely high profits and on the other hand there are sectors losing their profit-making capabilities. Classes, who are engaged in leading sectors of economy, earn high incomes and demand high quality (collective) consumption, while the other classes "see their sinks". Sassen (2002, 164-165) mentions that spatial organization in global cities reflects this inequality. Downtowns and business centers of global cities as well as the places used by high income groups "receive massive investment in real estate and telecommunications". However areas, where low income groups are located, hardly receive any kind of capital investment and resources.

Global city perspective attempts to relate economic processes and urban development by focusing on global cities. In this context, it is limited merely to global economic processes and to global cities. This perspective probably loses its explanatory power in case of the relationship between economic processes and urban development in peripheral countries, where cities do not have strong connections with global economy. On the other hand, global city perspective is

useful in understanding the ways and fields of capital investments in global cities. It is observed that substantial amount of capital is being invested in the production of urban built environment in global cities in order to create the necessary infrastructure and physical layout. Besides, traditional economic sectors mainly the productive ones like manufacturing are observed to be losing their profit-making capabilities. When these findings of Sassen are interpreted and translated into the terminology of Neo-Marxist arguments, especially the argument of Harvey, it can be concluded that traditional primary circuit activities are losing their profitability and reinvestment opportunities while secondary circuit develops as a profitable channel for investments in globalization era.

#### **2.2.5. Conclusion**

A brief evaluation on different theoretical approaches and arguments concerning cities and urban development is made in this section. Each of these approaches and arguments is essential to explain certain parts and issues of urban processes. In other words, none of them is more correct than the other. However the critical point is to choose the argument which is more related to the issue that we are interested in.

This brief discussion indicates that Neo-Marxist arguments, instead of assigning autonomy to urban processes, attempt to put forward an interconnection between the production of urban space and certain features of capitalism such as capital accumulation, the state, class struggle, etc. In this context, Neo-Marxist arguments, especially the one developed by Harvey, seem more relevant to the purposes and research questions of this thesis. In more concrete terms, as this thesis aims at explaining the relationship between the production of urban space and capitalist economic processes in the context of Turkey arguments on capital switches between circuits of capital accumulation would be more significant and useful. However we will most likely benefit from the other Neo-Marxist arguments, city as a growth machine argument and global city perspective in due course.

In the following section, theoretical arguments, which relate the production of urban space to capital accumulation processes, are going to be examined in detail. Harvey's argument (1985, 1982) will constitute the core source of this

discussion. Yet essential insights and views from related literature criticizing and supporting Harvey's argument will be incorporated into this discussion.

## **2.3. CAPITAL ACCUMULATION AND THE PRODUCTION OF URBAN SPACE**

In this section we will focus on studies which can be entitled as *capital switching approach*. This approach seems the most relevant one when the aim of this thesis and the research questions behind it are considered. Harvey's studies (1973, 1982, 1985, 1985a, 1985b), which explains the production of urban space with reference to capital switches between different circuits of capital accumulation, constitute the backbone of this approach. Nevertheless the approach is not only limited to Harvey's studies. Various authors have contributed to this approach either by criticizing or by supporting Harvey's studies. Among these contributions the outstanding ones which should be mentioned at first stance are Lamarche (1976), Mingione (1974, 1977) Gottdiener (1985), Halia (1991), King (1989) and Feagin (1987). In what follows we will attempt to incorporate all the relevant studies within the approach and present them in a systematic way. At the end of this part we will stress some different directions for concrete research as well as some research questions.

### **2.3.1. Capital Switching Approach**

Harvey (1985a, 1) developed a theoretical framework to "understand urban process under capitalism". He accepts that "urban has a special meaning under the capitalist mode of production". The special meaning assigned to urban has two dimensions. First of all, urban space is a physical layout where capitalism functions. In other words urban space provides the ground for production, exchange and circulation of capital. Thus production of urban space under capitalism means the production of the spatial organization of capitalism. Secondly, for Harvey, the production of urban space is a context to maintain capital accumulation. The continuity of capital accumulation in terms of solving its crises is assured via the production of urban space. So for Harvey (1985a), urban space under capitalism performs two distinct roles. On the one hand it serves as a ground for capitalist relations and on the other it is functional for the (re)production of capital accumulation.

Harvey's analysis on urban process under capitalism is based on the theory of accumulation (Harvey 1985a, 13). His analysis centers around two themes; accumulation and class struggle (Harvey 1985a, 1). The contradictory character of these two themes determines how urban space is conceptualized. For Harvey (2001, 312-313) circulation of capital as the core feature of capitalist system, is a profit-seeking process in which "money" is used to produce new commodities that are sold for more "money" than the initial one. Although the continuity of this circulation is vitally important for the survival of capitalism class struggle may endanger it. In other words class struggle within capitalism causes overaccumulation problem and this problem is solved via production of urban space. Consequently Harvey (1985a) proposes a cyclical model of investments in the built environment deriving from the overaccumulation problem in capitalist mode of production (Smith 1991, 125).

Harvey's argument (1985a) on capital switching is based on the differentiation of three circuits of capital accumulation. These are the primary, secondary and the tertiary circuits. Primary circuit is the locus of commodity production where overaccumulation problem arises. Harvey cites primary circuit as the productive sphere where the production of value is generated. Secondary circuit comprises the production of fixed capital and consumption fund, which entail the production of built environment for both production and consumption purposes. Tertiary circuit refers to the investments in science, technology and social expenditures like education, health for reproduction of labour power. So these three circuits function as different channels of investment under capitalism. Under the existence of these circuits, capital has "variety of investment options open to it – fixed capital or consumption fund formation, investment in science and technology, investment in human capital" (Harvey 1985a, 8-10). Consequently the capitalist system operates by creating some problems due to its inner contradictions. These problems, which endanger the continuation of capital accumulation process, are solved through the capital flows between three different circuits of capital.

#### 2.3.1.1. Overaccumulation Problem as an Outcome of Class Struggle

Class struggle has a central role in Harvey's argument (1985a) since it explains the internal contradictions of the system. Harvey (1985a, 2-3) identifies two forms of contradiction deriving from the class character of capitalist system. The first



form of contradiction arises from the class struggle between capitalists and labourers. Domination and exploitation of labourers by capitalists within the work process create profits. Capitalists, in order to increase profits, have a tendency to increase the oppression upon labourers. However labourers on the other side attempt to confront this oppression in order to increase their share of profit. In this sense, for Harvey (1985a, 2), capitalist form of accumulation is always an “overt and explicit class struggle between labour and capital” and much of the dynamics of capitalist system could be explained by this class struggle.

The second form of contradiction deriving from the class character of capitalist system is related to the heterogeneous character of the capitalist class. Although they constitute a fundamental class, capitalists operate and compete spontaneously for their self-interests in a world of individualism and freedom. Through this competition, the aggregate result of activities of each capitalist can easily be hostile for their overall class interest and may endanger the conditions of reproduction of capitalist accumulation (Harvey 1985a, 2).

After defining these two contradictions Harvey (1985a, 3) suggests separating them although they are integral to each other. According to him, contradiction deriving from the capitalist class itself differs from the class confrontation between two classes. The essential and basic assumptions of his argument on urban process rest upon the heterogeneity assigned to the capitalist class.

From the various implications of class character of capitalists Harvey (1985a) mainly stresses the overaccumulation problem as an element to understand urban process under capitalism. Individual capitalists freely acting and competing within the capitalist system may expand the basis for profit so much that it runs counter to the interests of capitalist class (Harvey 1985a, 4). Overaccumulation, for Harvey, is such a consequence. In other words, individual capitalists tend to overaccumulate capital within the primary circuit of capital accumulation. Harvey (1985a, 4) describes **overaccumulation as “too much capital produced in aggregate relative to the opportunities to employ that capital”**. He also distinguishes four different form of overaccumulation within capitalist system.

Harvey (1985a, 4-6) describes the four different types of overaccumulation problem as follows:

- a) "Overproduction of commodities – a glut on the market",
- b) "Falling rates of profit (in pricing terms, to be distinguished from the falling rate of profit in value terms, which is a theoretical construct)",
- c) "Surplus capital which can be manifest either as idle productive capacity or as money capital lacking opportunities for profitable employment",
- d) Surplus labour and/or a rising rate of exploitation of labour power"

These different types either individually or in combination manifest the existence of overaccumulation problem which is the result of capitalists' class character.

Restructuring periods of economies both globally and locally might be accepted as the manifestations of overaccumulation problem. As restructuring of economies is a response to current crises the periods of restructuring could provide evidences for overaccumulation. This claim is also found in Harvey's argument. Harvey (1985a, 11) defines **crises as "real manifestation of the underlying contradictions within capitalist process of accumulation"**. He argues that commercial crises occurred in Britain in 19<sup>th</sup> century as well as the global crises of capitalism ended up with the movement of capital into the production of built environment "as a kind of last-ditch hope for finding productive uses for rapidly overaccumulating capital" (Harvey 1985a, 20). So theory suggests that restructuring of economies following crises could be assumed as important evidences of overaccumulation problem.

Consequently, according to the theoretical framework developed by Harvey (1985a, 6-7) **class struggle within capitalist system creates an overaccumulation problem** which means **"a surplus of both capital and labour in relation to current production and consumption needs"**. An essential but **temporary solution** to overcome the problems of this surplus capital is **to move that capital into the production of built environment**. In other words, crises such as overaccumulation of capital in the primary circuit are conceived as the natural results of the functioning of a capitalist system and they have to be solved in order to preserve the continuity and stability of the system. This could be done temporarily by capital flows to the production of urban space. Thus, capital accumulation and urban processes function together by investments

in built environment and social expenditures (Harvey 1985a; Smith 1991, 125-126; Şengül 2001, 12).

#### 2.3.1.2. Is Capital Switching a Temporary Solution?

Harvey (1985a, 16) accepts that capital switches from primary to secondary circuit of capital accumulation has a limit. This means that at some point built investments would become unproductive. In other words, Harvey (1985a) argues that the solution of overaccumulation problem by switching capital from primary to secondary circuit could be a temporary one. He relates this to some features of urban built environment. Investments in built environment create spatially immobile and large scale structures. In addition once these structures in urban areas are produced it then becomes difficult to change them. The reason for this is that their consumption and utilization take long period of time. Therefore according to Harvey, the condition for continuous investments in urban areas is to diminish the exchange values incorporated into the existing built environment (Harvey 1985a, 16). In other words, continuous productivity in real estate sector could be achieved if the values incorporated into the old investments could be diminished by the new ones.

The reason for assigning a limit to secondary circuit investments is that Harvey accepts secondary circuit as dependent upon the primary circuit. In his argument the main financial source of built investments in urban areas is assumed to be the excess capital which is overaccumulated in the primary circuit. So the argument accepts that **when the investments in the secondary circuit generate demand for production in the primary one capital will then be switched to its original location** (King 1989a, 446; Beauregard 1994, 717). So it is clear that **Harvey treats secondary circuit as a “safety valve” for primary circuit** (Beauregard 1994, 729). However **this part of his argument becomes an important focus for criticisms**. In what follows we will discuss the outstanding ones of these criticisms.

##### *2.3.1.2.1. Houston Case: Oil Industry and Office Space Glut*

Feagin (1987) analyzed private sector's real estate investments in Houston city by following *capital switching approach*. Although he generally accepted Harvey's

arguments, findings of his study provide important insights to extend capital switching argument. A huge flow of surplus capital into secondary circuit was experienced in Houston during 1971-84. Office space already constructed in Houston in 1985 became the third largest in United States when compared to the other cities (1987, 176).

Throughout his study (1987) Feagin is not concluding that the surplus capital accumulated in the primary circuit (oil industry) in Houston was flowed into real estate sector. Instead, departing from his empirical findings he highlights a different conclusion. Feagin (1987, 182) states that only a small part of the oil capital in Houston flowed into office development projects in the city. In other words, he **did not find a strong evidence to relate the secondary circuit investments directly to the primary circuit in Houston**. Feagin (1987, 184) argues that capital invested in real estate sector in Houston cannot easily be related to primary circuit in Houston or somewhere else. For him, surplus capital accumulated both in primary and secondary circuits in many regions of the world flowed into the secondary circuit investments in the city by the mediation of financial institutions since investments in real estate sector are believed to be profitable in Houston. So, the claim is that money in search of more money can easily flow into real estate sector without any direct connection with overaccumulation problem in primary circuit. That's why Feagin (1987, 187) describes **real estate sector as "a major outlet for surplus capital of all types"**.

Feagin (1987, 186) also shows how unproductive could be the investments in urban areas. He notes that many development decisions taken by the key actors in Houston were based on "feel" and "image". So for him there is an unsophisticated "social psychological dimension" of capital switching into secondary circuit, which ends up with irrationality and overinvestment. Feagin (1987, 179-181) also notes the negative results of office development in Houston as glut of low quality office buildings, high vacancy rates, leasing difficulties and bankruptcies.

Feagin's study (1987) is essential to show that investments in real estate sector or money spent for the production of urban space does not necessarily the outcome

of a crisis in primary circuit. Surplus capital accumulated in any of the circuits may well be the source of money spent in real estate projects.

#### *2.3.1.2.2. Is Secondary Circuit An Autonomous Field of Investments?*

Beauregard (1994) conducted a “weak” test of Harvey’s arguments by focusing specifically on the construction boom of 1980s in United States. Throughout his study, which regards only a part of real estate activity of mid 1980s, **Beauregard (1994, 729-30) concluded that “the secondary circuit is not simply the safety valve of the primary circuit”**. In other words capital, which is overaccumulated in the primary circuit, might not flow into the production of built environment in all cases. Since other outlets like stock speculation, overseas markets, government bonds or tertiary circuit might also provide higher profit opportunities. By using various data Beauregard states that capital may flow into both production and construction sectors “on a cyclical rather than a countercyclical basis” (Beauregard 1994, 729).

The conclusions developed by both Beauregard (1994) and Feagin (1987) stress that secondary circuit may well be autonomous or independent from primary circuit. This conclusion coincides with the studies (Gottdiener 1985, Haila 1991, Charney 2001) claiming that real estate sector has its own “intrinsic dynamics”.

#### *2.3.1.2.3. Arguments on Intrinsic Dynamics of Real Estate Sector*

Arguments claiming real estate’s “intrinsic dynamics” as a central motive for capital switches are influenced by Gottdiener (1985). These arguments constituted main criticisms against Harvey. Gottdiener (1985, 187) argues that Harvey is far from explaining “why investment is more profitable in the built environment”. According to Feagin (1987, 173) “Gottdiener has criticized Harvey.....for failing to understand that investment in land has its own dynamic to a substantial extent independent of overaccumulation problems in the primary circuit investment”.

Haila (1991) carried out a study stressing the “intrinsic dynamics” of real estate sector. Haila (1991, 348) claims that arguments developed by Harvey and Gottdiener are complementary and further studies should attempt to develop a new theory by taking Gottdiener’s criticisms into consideration. According to her,

this new theory should depart from Harvey's arguments and should be entitled as "the theory of real estate sector's intrinsic dynamic". However she also notes that the new theory should go beyond Harvey's arguments thereby showing real estate investments as being made not only because of the lack of investment opportunities in primary circuit but also because of the internal features of secondary circuit which attract investment (Haila 1991, 348).

As "rent is the incentive that attracts investments in the real estate sector" (Haila 1991, 348) Haila gives central importance to 'rent' in developing the new theory. For her, the new theory should include the following four statements. "First, the motive of investors is to maximize rent, second, rent is sought continuously.....third, there exists a tendency to treat land increasingly as a purely financial asset.....and fourth rent has a coordinative role" (Haila 1991, 348).

#### *2.3.1.2.4. Huge Stock with Scarce Capital*

There is another study which is worth mentioning in this part of our discussion. The study carried out by Balamir (1975, 1982 and 1992) is of importance in explaining the autonomy of secondary circuit in terms of including specific social and property relations. It is possible to say that Balamir's study underlines some similar and common conclusions with the arguments on intrinsic dynamics of real estate sector. Balamir (1982, 13) aims at showing the relationship between urbanization and capital accumulation within the context of Turkey. In other words, he attempted to show that capital transfers and accumulation processes are as important as population and labour mobility issues in order to explain the dynamics of urban process.

Balamir (1975, 1982 and 1992) points out that there happened a massive increase of building stock in Turkey within a very short period of time. The total area of constructed buildings increased more than 200 percent during the 15 years between 1965 and 1979 (Balamir 1982, 16; 1992, 89). The major share within this increase belonged to housing constructions. In other words, despite some short fluctuations a massive increase in the housing production occurred in Turkey between 1965 and 1980 (Balamir 1982, 16). However the interesting point

here is not only the massive increase of building stock but also the conditions under which this increase occurred.

First of all, the increase of building stock, which could be labeled as a housing boom, was achieved in a very short period of time. Secondly, this housing boom occurred in a period when most of the resources were channeled to the primary circuit. Neither the state nor the corporate capital was interested in investing into the production of urban space (Balamir 1992, 110). Therefore, housing boom was not an outcome of surplus capital switched into the secondary circuit. On the contrary it is concluded that the boom, itself, occurred as a response to a scarcity of capital. Balamir (1982, 26) shows that this was provided by the establishment of new types of social relations specifically, property relations legalized under Flat Ownership Law (Law No: 634, Official Gazette 02.07.1965/12038). The capital, which is needed to finance the investments in the secondary circuit, was gathered through the relations between petty developers, landowners and households willing to buy a house with limited savings (Balamir 1992, 111-113). These relations established within the construction of multi-storey apartment blocks had extended so wide that they fueled the housing construction especially the apartment blocks in Turkey.

So the Turkish experience of urbanization between 1965 and 1980 presents that secondary circuit contains some specific features and dynamics in terms of social and property relations which, in some cases, make it independent or autonomous from the primary circuit. These features and dynamics may create sufficient sources to finance massive investments in the production of urban space.

A crucial point should be emphasized after discussing the latter mentioned studies. Discussions about the relationship between primary and secondary circuits, for us, constitute a “**Focus of Attention**” within capital switching approach. Harvey has a functionalist point of view about the relationship between the two circuits. For him, investments in secondary circuit are the outcomes of a crisis or a problem occurred in the primary circuit. Whenever the crisis or the problem in primary circuit is recovered then investments in secondary circuit slow down. Despite Harvey’s functionalist point of view, there are empirical studies showing that primary and secondary circuits may be autonomous from each other. These studies also conclude that secondary circuit, due to its internal

dynamics and features, is always an attractive alternative channel for investments regardless of the conditions in primary circuit. This junction of different views provides a fertile ground for developing some research questions or hypotheses which should be tested in concrete research. Below, two different sets of hypotheses, which we derived from the discussions concerning the relationship between primary and secondary circuits, are given.

**Hypotheses Set 1** (Mainstream Hypotheses): There is a counter-cyclical relationship between primary and secondary circuits. In such relationship, capital switches into the secondary circuit occur solely when an overaccumulation problem arises in the primary circuit. Thus, a rise in secondary circuit activities is dependent on a fall in primary circuit activities.

**Hypotheses Set 2** (Unconventional Hypotheses): There may be a cyclical relationship between primary and secondary circuits. Excess capital of any kind could flow into the secondary circuit regardless of an overaccumulation problem in the primary circuit. The internal and specific features and dynamics of the secondary circuit provide the necessary conditions for such an autonomous relationship. Thus a rise in secondary circuit activities could be independent from the rising or falling trends in primary circuit activities.

#### *2.3.1.2.5. Global City Perspective Supporting the Idea of Capital Switching*

The mainstream hypotheses, which put forward a necessary relationship between overaccumulation problem and built investments in urban areas, not only challenged but also supported by some other studies. According to us, findings of and discussions in certain recent arguments and research provide essential support to the mainstream discussions in *capital switching approach*. Studies on globalization, especially the global city perspective are an example for these studies. First of all, globalization studies and global city perspective indicate that traditional economic sectors like manufacturing started to loose its profitability when compared to information economies. This means that with the development of global economy the major primary circuit activity, namely the manufacturing sector, is experiencing difficulties in finding fresh investment opportunities within the sector. Traditional actors of capitalist economy, in global cities, have been in search of new profitable outlets for further investments. Therefore it could be



concluded that there is an ongoing tendency to switch capital into different fields rather than primary circuit.

This tendency is coupled by another issue emerged and developed through the globalization process. Cities especially the global ones are being subjected to massive investments in real estate sector. The reason for this is that global economy requires a high quality of infrastructure and communication technologies as well as commercial and office spaces. Besides, highly paid residents of global cities demand for luxurious, protected and safe housing and residential areas, high quality recreation facilities and etc. These demands also increase the investment opportunities within real estate sector especially in global cities.

#### *2.3.1.2.6. Urban Entrepreneurialism and the Idea of Capital Switching*

These recent discussions concerning the new developments in global cities and in global economic processes are also discussed by Harvey (2002). He mentions that the recent developments brought about a transformation from “managerialism to entrepreneurialism” in urban governance. He (2002, 456) argues that there is a strong consensus around the idea that urban governments has to be more entrepreneurial. The idea forcing this consensus is that cities by adopting an entrepreneurial model would have positive benefits in economic development. Harvey (2002, 458) mentions that “new urban entrepreneurialism rests on a public-private partnership focusing on investment and economic development with the speculative construction of place”. In other words, urban entrepreneurialism puts the speculative construction of urban built environment on the agenda of urban governments rather than need-oriented construction activities.

Among the different strategies for urban entrepreneurialism mentioned by Harvey (2002), we will only focus on two of them. The central aim of urban entrepreneurialism is to improve the competitive position and advantages of cities. Cities, in global era, have to attract not only the capital but also the consumers in order to gain economic benefits. So improvement of their competitive position should rest upon two strategies. On the one hand, urban space should be organized in accordance with the demands for consumption and; on the other hand it should be organized by considering the production activities. The first strategy is related to the built investments enriching the consumption facilities in

cities. Cities should receive massive investments which will upgrade the physical structure and provide new facilities like culture and convention centers, shopping centers, hotels, sports stadium, etc. These investments will provide a good living climate to the city and hence advertise it as a good place to live, visit and consume (Harvey 2002, 459-460).

The second strategy is related to production, generally the new economy. Cities should attract the key control and command functions of finance sector and government as well as the information gathering and processing facilities. The main requirement for attracting these functions is to provide them expensive and high quality infrastructure. So cities should receive massive investments in transport and communication facilities as well as investments creating office spaces equipped with necessary accessories (Harvey 2002, 460).

All in all, Harvey (2002, 462) argues that new entrepreneurialism proposes public-private partnership as the right way of urban governance. He asserts that urban entrepreneurialism should provide a “good business climate” at the local level. This climate is suggested to be provided by massive investments in the built environment. These conclusions are similar to the conclusions of globalization studies. All these conclusions imply that cities in the era of globalization should be governed by an entrepreneurial model which has to enhance strategies to switch important amount of capital into the secondary circuit.

#### 2.3.1.3. Exploring the Secondary Circuit of Capital

In the light of the discussions made above it is clear that *capital switching approach* conceptualizes the secondary circuit of capital accumulation, which is the production of urban space, as an alternative channel for investments. Although Harvey suggests accepting the secondary circuit as a temporary alternative channel to solve the overaccumulation problem some authors suggest that it may be a permanent alternative which is always open to investments regardless of any crisis situation. We noted this distinction as a focus of attention out of which concrete research questions and hypotheses could be derived. Nevertheless both of these views assert in common that investments in the secondary circuit provide high profits. In other words, *capital switching approach* includes the idea that production of urban space as an economic activity is

profitable. This statement enables us to pose certain questions: why and how do the built investments in urban areas provide high profits? Do the amounts of these profits differ in accordance with the type and location of the investments? What are the necessary conditions for capital switching to secondary circuit investments? In order to answer these questions we need to discuss the concept of secondary circuit in detail. In the following parts such a discussion is provided.

#### *2.3.1.3.1. Ground Rents: Form of Profit in Urban Areas*

Harvey (1985b) explains capital switching between primary and secondary circuits and the further profits with reference to the special features of urbanization. He mainly stresses the creation of “class-monopoly rents” in urban areas as one of these special features. Harvey (1985b, 62-64) defines **rent as a “transfer payment realized through the monopoly power over land and resources supported by the institution of private property”**. This transfer payment is made to have the right to use a scarce resource that is owned by another individual. So scarcity is an essential factor in both creation and realization of rent. Harvey (1985b, 62-64) assigns a central role to urban areas as a source of scarcity which creates rents. For him urbanization as the creation of relatively permanent resource systems that are highly localized in their distribution creates scarcity where there was none before. In other words, urban areas are the arenas increasing the opportunities for realization of transfer payments to a scarce resource since absolute scarcities are being created by the construction of absolute spaces. Absolute spaces constructed by dividing space into parcels and segments are cited as essential for the realization of class-monopoly rent. So production of urban space means also the creation and realization of class-monopoly rent.

Harvey (1985b, 79) indicates residential differentiation as an example of this process. For him residential differentiation is a source of realizing “class-monopoly rents” and it is the result of conscious efforts of governmental and financial institutions and investors. So actors seeking to realize “class-monopoly rents” shape the residential structure of urban areas. Harvey (1985b, 80) does not ignore the role of features like race-ethnicity, social status and life style aspirations in the structuring of residential differentiation. For him, these features increase the potential for realizing “class-monopoly rents” since they help to

maintain the island-like structure of absolute spaces created. In such an analysis, consumer preferences and new modes of consumption are also perceived as features produced within urban areas in order to perpetuate the crystallized and distinctive separations of communities. So fragmentation of population in urban areas serves as a basis to realize “class-monopoly rents”. Harvey (1985b, 81) also mentions that “class-monopoly rents” realized in different sub-markets in a city are not independent of each other and they have multiplier effects. So “class-monopoly rents” realized in one part of an urban area will possibly increase the realization of rent in another area.

Creation of “class-monopoly rents” in and through urbanization and the multiplier effects of this rent creation are essential in understanding the capital flows from primary to secondary circuit. In the short run investments in the secondary circuit may reveal more profitable character and in cases of industrial stagnation and decline of industrial profits capitalists may prefer to invest in the production of built environment (Harvey 1985b, 82). In other words, capital flows into **the secondary circuit means the realization of surplus value by creating an urban environment where various types of “class-monopoly rents” arise**. However Harvey emphasizes that this shift should be a temporary one since only the produced value (capital) could be realized by investing in the secondary circuit. So there must be an overaccumulation problem creating excess produced value that is to be realized through the production of urban space.

As it is obvious Harvey relates capital switches with “class-monopoly rents” created in urban areas. Rents in his argument appear as the form of profit gained through the production of built environment. However a crucial point should be noted here. Although Harvey conceptualized it as a unity and a totality built environment is a gross category which entails different elements like residences, offices, commercial developments, transportation facilities, etc. Besides, it spreads over a large territory covering different locations. Therefore it is appropriate to state that rents in urban areas do not emerge constantly and at the same level in all elements of built environment. Different locations in an urban area and different elements of that urban area would have different rent creation potentials. Such a discussion is not neglected in Harvey’s argument. However there are some other studies within *capital switching approach* discussing

different types of urban rents and the differentiation of the levels of their realization in relation to the different elements of urban space. These studies help us to make a better understanding of the production of urban space in terms of creating and gathering profits in the form of urban rents.

#### *2.3.1.3.2. Land Speculation and Ground Rents as Complementary Components of Capitalist Accumulation*

Mingione (1974, 1977) provided an essential and influential understanding of urban processes in relation to capitalist accumulation by mentioning that “territory is also a means of production”. His argument indicates how certain territorial processes have contributed to the conservation and survival of social relationships in capitalist system. Unlike the classical and traditional views, Mingione (1977, 92) asserts that “land income and speculation” has become complementary and useful components of capitalist accumulation. He designates two factors as the terminator of the contradiction between ground rents and capitalist accumulation. First of all, since the contradiction between capitalists and labourers threatens the private ownership of means of production, ground rents as a form of property has to be sustained in order not to stimulate the abolition of the former. Second, as capitalist class has acquired lands and properties in the course of capitalist production landownership started to play an essential part in capital accumulation (Mingione 1977, 97).

Mingione (1974, 1977) exemplifies Italian case to indicate the close linkage and interrelationship between ground rents and capitalist development. Land and property related businesses such as building trade and construction have been a key sector of Italian economic development. This sector has functioned as a “stepping stone” for immigrants before proceeding through the sectors providing more stable and permanent employment opportunities. In this regard, this sector essentially contributed to the control of migratory flows and marginal employment in Italy (Mingione 1977, 98). The linkage between ground rents and capitalism in Italian case is not only limited to the control of marginal employment. Mingione (1974, 266; 1977, 99) mentions that land speculation and construction activities have functioned as a key instrument in South Italy in order to preserve and control the socio-political integration. The lack of industrial production and development was compensated by urban development based on speculation and hence, by

means of this compensation capital accumulation and existing social relations were preserved.

#### *2.3.1.3.3. Differential Rents under Differentiated Circumstances*

Lamarche's argument (1976) relates urban process and capital accumulation via the functioning of property capital. Unlike Harvey, Lamarche (1976) focuses on different elements of city with respect to their potentials in rent creation. Since profits of property capitalism are the rents obtained in urban areas their investment decisions are affected by the type of the activity. The idea behind is that each activity has not the same capacity to create rents. During his argument Lamarche (1976, 100-103) focuses mainly on two forms of rent, specifically differential rent 1 and differential rent 2.

Differential rent 1 is described as a form of rent which derives from the "advantages offered by the site of a property and which do not directly depend on any action by the owner". In other words this form of rent is demanded by the owner in exchange for some advantages created by the environment in which the land or building exists (Lamarche 1976, 100). So differential rent 1 is not created directly by the developer but it is the result of all the investments which took place in a particular area. Lamarche (1976, 101) defines two sources through which this form of rent originates in urban areas. First of all "an individual developer may derive from other investors". In other words, each developer through his activities helps the other investors to increase the rents they gain. For example, when a shopping centre is constructed it would increase the rent derived from residential development around it. The second source for differential rent 1 is public investments such as the provision of a new transport system which would possibly lead to an increase in rents in the area the new system serves (Lamarche 1976, 101).

However differential rent 2 is not related to the location but derived from "the characteristics of the occupants" of a property. In this form of rent the developer exploits the "advantages offered by the proximity between tenants occupying his property" (Lamarche 1976, 101). So it is assumed that in urban areas some people are ready to pay more for places where they are close to some specific groups of people.

After having defined these two fundamental forms of rent Lamarche (1976) makes a discussion about the types of activities or land uses which are effective in creating these rents. According to him (1976, 101-102) residential developments have limited capacities to create these differential rents. He argued that residential developments would have very limited capacities to create especially the differential rent 2. The reason for this is that house buyers or residents, unlike commercial property owners, do not care to whom they are living side by side. In other words, Lamarche asserts that residential property owners are not concerned much about the quality and characteristics of their neighbors. Therefore he states that developers would gain less from differential rents if they invest into the housing sector. Lamarche (1976, 97) also argues that developers will only invest in residential properties if the case is luxury dwellings in high-rise buildings. Only then they would have the opportunity to gain greater excess rents on a small piece of land. In addition he concludes that there would always be a limit of investing in residential properties since people do not gain economic benefits by occupying a housing unit and they consume it in long periods of time. So for these reasons housing sector will only be a “sub product, sideline of property capitalism” (Lamarche 1976, 97).

Lamarche (1976) emphasizes the role of commercial and office developments in creation of differential rents especially the second form of them. The reason behind this is the internal organization of activities carried out by large companies, financial and administrative institutions. In order to obtain greater efficiency in their activities like higher turnover, better access to information and services, etc. actors of commerce, finance and administration would prefer to occupy same place or at least each would prefer to have some proximity to others (Lamarche 1976, 98-99). In other words, as the tenants of same commercial and office properties would be mutually advantageous developer would have greater opportunity to increase the rents he gain. Thus differential rent 2 which is created by the developer would become more apparent and available in commercial and office properties (Lamarche 1976, 102).

Lamarche’s argument (1976) is not limited to differential rents. It would only be possible to limit the argument to these forms of rents if the developer and the owners of land are same person. However in reality they are mostly different

actors who share a common aim that is to obtain the maximum rent from their investments and properties. So investment efforts in urban areas are also a confrontation of developers and land owners. Lamarche (1976, 107-108) mentions this confrontation as follows:

“In other words the developer’s right of ownership enables him to extract a rent for the real advantages which his tenants actually benefit from; whereas that of the landowner enables him to obtain a rent for the potential advantages which the property developer will actualise. In a way it is the story of the stealer stolen which repeats itself according to the following rule: the developer is the one who carries the plan through while the land owner fully aware of the plan demands a share of his loot in exchange for his complicity.”

The form of rent that is acquired by landowner is absolute rent. This rent appears from the right of landowner to keep his land from any kind of investment. If developers would like to obtain a land and invest on it then they have to share their further differential rents with landowner. So “absolute rent may be regarded as corresponding to the portion of differential rents attributable to the landowner’s action in withholding land” (Lamarche 1976, 108). It is logical to claim that such a confrontation between landowners and developers would affect the paths of investments in built environment. As both sides aim to maximize their profits they should employ some strategies to do that. So those strategies might be determinants of investment patterns in urban areas. In a case where landowners demand high portions of development rents developers might direct their investments on extensive properties requiring small plots of land in order to decrease the amount of absolute rent in total rents. Commercial and office developments seem to be more appropriate to implement the both strategies. In addition as a general strategy, developers may own lands in order to gain both differential and absolute rents. They may then direct their attention to gather lands which are distant from current development zones, etc. These are some examples but the point is that landownership and its character in a context seems to be an essential element in determining the path of investments in built environment in that context.

Consequently Lamarche (1976) argues that rents as form of profits in urban areas are essential in determining the activities of property capitalism. Residential properties provide limited opportunities to developers for gaining differential rents while commercial and office developments are effective in rent creation. He



(1976, 103) concludes that commerce, administration and finance are principally the types of activity for which developers want their properties to be used for since they increase profitability in terms of differential rent 2 as well as they are extensive investments. He also notes the tension between landowners and developers as former extracts the rents created by the latter. This tension seems to be an important element which may affect the process of investments in built environment.

Feagin's study on Houston supports Lamarche's ideas on commercial and office developments. Feagin (1987) conducted a study on private sector's real estate investments in Houston city. A massive flow of capital into secondary circuit was experienced in Houston during 1971-84. The major form of investments financed by this capital has been the office buildings. Total amount of office space constructed in Houston in 1985 became the third largest in United States (Feagin 1987, 176). Feagin (1987, 179-181) concludes the final result of this capital switch as a glut of office space most of which remained vacant.

However it should also be mentioned that studies on globalization and global cities are challenging Lamarache's arguments on differential rents. It is widely accepted that territorial proximity lost its importance in the global era. Firms and companies which are thousands of miles away from each other could easily work and produce together via means of communication technology. Therefore types of differential rents created as a result of territorial proximity will loose their importance. Moreover Lamarche's arguments stressing the limited capacities of residential developments in creating differential rents are also challenged by these recent studies on globalization. Lamarche simply claims that residential developments have limited capacities in differential rent creation since people do not purchase residences on the basis of proximity to certain people and groups. However new residential preferences and housing demands observed in global cities and also in metropolitan cities indicate that high and middle income groups demand for living close to people who have identical class position. Concept of gated communities, ghettos and process of gentrification could be accepted as the implication of these recent developments. So it seems appropriate to conclude that with the limited capacity of residential properties in rent creation are in the global era.

#### *2.3.1.3.4. State of Ground Rents and Speculative Investments*

Another argument relating the investments in secondary circuit and ground rents is that of King (1989a, 1989b, 1989c). He attempts to extend and deepen Harvey's argument on capital switching not only by taking ground rent into consideration but also by emphasizing the role of changing class and cultural structures. For King (1989a, 448) the nature and effects of investments in the built environment can be studied and understood by examining the roles of urban ground rent. He defines five forms of ground rents each of which involves different economic relations between producers, consumers and landowners (King 1989b, 711).

DR1 as the first form of differential rent means "material conditions that make fertility differentials permanent features to production" and DR2 as the second differential rent, "simply express the effects of differential applications of capital to land of equal fertility" (King 1989a, 448). MR1 as the first form of monopoly rent occurs as the result of "monopoly attaches to the commodity being produced on the land" whereas "land itself is monopolized by landowners who are able to withhold it from use unless MR2 is paid" (King 1989a, 448).

King (1989a, 449) defines the last form of urban ground rent as absolute rent (AR), which "arises from the ability of landowners as a class to block the investment of capital on new land until a rent is paid". The ability of landowners to extract absolute rent is dependent on the existence of barriers to capital investments in land.

Definition of ground rents in various forms is essential in King's argument since he (1989b, 735-36) proposes an indirect relationship regarding capital shift from primary to secondary circuit. In other words according to him, overaccumulated capital cannot easily and directly flow into the secondary circuit since interactions between different forms of ground rent determine the path of capital flows. So **"the incentive to switch investments will vary with the state of rent in a submarket"** (King 1989b, 711). Consequently it is important to note and clarify the state of ground rents in different real estate markets in order to understand the flow of capital into secondary circuit as well as the forms and ways of that flow.

King (1989b, 735) exemplifies the roles of different forms of ground rent in catalyzing the flow of capital into the built environment. For him, “rises in absolute rent can reward speculative investment and so entice yet further speculation”, so does the “reevaluations underlying increases in DR1”. However changes in planning and zoning decisions and control as local barriers can reward some of the existing properties by rises in monopoly rent and may either cause real or speculative investment.

King (1989c, 853) used these insights and explores the roles played by ground rent during the progress of housing sector in Melbourne between 1930 and 1980 as follows:

“It was generally concluded that average rent (average annual cost of housing relative to average earnings) and thereby housing-related accumulation, rose virtually uninterrupted from 1932 to 1977, proving the incentive to the suburbanization boom of the 1950 and 1960s. However an extraordinary rise in average rent in 1973-74 (viewed as ‘absolute rent’ in terms of the Marxian categories of ground rent) created an affordability barrier, inhibiting the ability of the housing sector to provide an outlet for speculative investment in the current ‘global crises.’” (King 1989c, 853)

In addition to the findings above King (1989c, 854) also notes that after the mid 1970s in Melbourne, differential price shifts as being monopoly rent provided incentive for both speculative and productive investment in housing.

As a result King (1989b, 735) generally accepts the idea of capital switching into secondary circuit during crises of overaccumulation arising in the economy. However he assigns a central role to ground rent and interactions between its different forms in determination of the type, nature and effect of investments in secondary circuit.

Discussions about urban rents and their interaction presented up to now show how and why investments in the secondary circuit of capital become profitable. It is clear that instead of treating the built environment as a gross category as in Harvey’s argument it seems more useful to relate the forms of rents to types of activities and to different elements of built environment. The discussions about the relationship between ground rents, landownership and capital switches, for us, constitute the second “**Focus of Attention**” within *capital switching approach*. The variety of ideas and the findings of the related empirical studies concerning

this focus enable us to develop new research questions and hypotheses. Below, another set of hypotheses is given.

**Hypotheses Set 3:** Levels and interactions of urban ground rents and the patterns of landownership in a specific context would determine or affect the volume and paths of built investments in urban areas. Therefore, switching of capital between primary and secondary circuits may follow different paths in different localities as well as at different periods.

Charney's (2001) study which is going to be discussed below includes essential findings and results supporting these hypotheses.

#### *2.3.1.3.5. Three Dimensions of Capital Switching Within the Secondary Circuit*

Charney (2001) presents the findings of a recent study focused on the strategies of selected Canadian real estate companies. He did not stress capital switching between circuits of capital but solely focused on capital switching within the secondary circuit. The idea behind is to clarify the inherent dimensions of the real estate sector, which are not only attracting investments in this sector but also guiding real estate companies in their capital switching strategies (Charney 2001, 743). Since capital may tend to switch between opportunities emerging in any of the circuits rather than switching only between primary and secondary circuits (Charney 2001, 742). In this regard Charney's study should be accepted as a follower of the approach called "real estate's intrinsic dynamics".

Charney (2001, 742-45) regards real estate sector as including various opportunities for capital to invest and to make higher profits. The opportunities are mentioned as the results of "three dimensions of capital switching" internal to real estate sector. First of all, "mode of operation" (Charney 2001, 743) including acquisition strategies versus development strategies is cited as the first dimension. Firms, depending on the conjuncture, may switch capital from production of new properties to acquisition of existing properties or visa versa. "Type of property" (Charney 2001, 744) including rotation strategies between different property types like residential and commercial constitutes the second dimension. Finally "location" (Charney 2001, 744) is the third dimension, which influences the capital switching across spatially segmented real estate markets.

Charney's (2001, 755) empirical research in Canada reveals that real estate capital is in search of most profitable secondary circuit investments and it is switched between different modes of operation, different types of properties and finally between different locations. Companies preferred to develop new properties instead of acquisition of existing ones during the upturns of the building cycle. This strategy is reversed when market reaches its top level of supply (Charney 2001, 746-47). Similarly companies also change their strategies between different property types in specific conjunctures. Although Canadian real estate companies mostly generated their development by residential property investments after 1980 they turned their attention to commercial real estate investments by diminishing the portion of residential properties in their portfolios (Charney 2001, 747-48).

#### 2.3.1.4. Necessary Conditions for Capital Switching

There is another essential dimension within *capital switching approach* that is the conditions under which surplus capital is switched between circuits. In other words, it becomes important to show how the excess capital is being switched from primary to secondary circuit. In Harvey's argument (1985a, 7) it is accepted that capital switches from primary to secondary circuit are not performed merely by the efforts of individual capitalists. For him capitalists, individually, might have problems in organizing a balanced flow of capital into the built environment. At this point he calls the state into discussion. He (1985a, 7) argues that **“a general condition for the flow capital into the secondary circuit is the existence of a functioning capital market and a state willing to finance and guarantee long-term large scale projects with respect to the creation of the built environment”**.

Harvey (1989) assigns an important role to the state in his argument. However the role he assigned to the state seems to have some problems. For him, capital flows into secondary circuit can be performed under state's support and activities since individual capitalists have difficulties in organizing a balanced shift from primary to secondary circuit. State in this model is conceptualized as a mechanism, which creates and guarantees the necessary conditions like an effective capital market, financing institutions, credit system etc (Harvey 1989, 65). It is clear that for Harvey state activity mediates the class struggle and

organizes the society for satisfying the needs and requirements of the capitalist class. In other words state as an intervening level in this approach is conceptualized as the instrument of capitalist class (Gottdiener, 1987).

Moreover in this framework the state is conceptualized and assumed as a powerful central state. Harvey did not take the local state and the contradictions between local and central states into consideration sufficiently. In other words, in Harvey's model there is the lack of a mutual relationship between local-central state levels. This is not surprising because of Harvey's conception about the state. Harvey assigns certain logic to capital and its circulation. Thus state is assumed as an integrated body which functions in parallel with the certain logic of capital (Şengül 2001, 22). In other words, Harvey defines a unidirectional path between central-local states through which national policies are transmitted to localities. Harvey (1985, 71) illustrates this transmission in United States case by the hierarchical organization of financial institutions under governmental control. These institutions operate together to relate national policies to local decisions. Within the limitations of such assumptions local political variations and contradictions between local-central states are unsurprisingly ignored in Harvey's theory. However social groups and interests formed and become dominant locally may be different from the nationally dominant groups and interests. Local groups trying to influence local politics to their interests may possibly be antagonistic towards national ones (Duncan and Goodwin 1988, 73).

The conditions necessary for capital switches is not only limited to the state. In his argument Harvey (1985b) relates the capital flow between circuits to the functioning of finance capital. The idea behind this statement is the inner transformation of the capitalist system. Harvey (1985b) terms contemporary capitalism as "advanced capitalism" in which finance capital gains hegemonic power over industrial capital. In other words, industrial capitalism based only on the production of goods has evolved to a finance form of capitalism which seeks to create and appropriate value through the production not only of goods but of new modes of consumption, social wants and needs (Harvey 1982). Finance capital operating through industrial, financial and governmental institutions is coordinating all social activity including production and consumption (in terms of reproduction of social relations of capitalism) into one coherent whole. This

process is realized through the interventions into the production of urban space since urbanization serves to produce new modes of consumption, different life styles and social wants. In cases of a decline in industrial profits financial institutions will compensate by moving into land and property markets. The urban realm becomes the area of functioning of finance capital aiming to control totally the production and reproduction of social relations of capitalism.

Consequently, according to the mainstream explanations of the approach, capital switches between circuits are performed under the functioning of financial and state's institutions. Harvey (1985a, 7) argues that the pattern of investments in urban areas is shaped by the "nature and form" of these institutions. In other words, nature and form of these institutions as well as their policies have important roles in determining the level of capital flows and the specific aspects of built environment into which investments should be directed. Therefore it could be stated that surplus capital is the main but not the sole condition for capital flows into the built environment. The existence of mediating structures in terms of financial and state's institutions, as well as their capacities determine and affect the volume and level of capital flows (Harvey 1985a, 7).

There are various studies and research supporting the idea of assigning essential roles to state intervention and policies as part of *capital switching approach*. Most of these studies indicate examples of state intervention and support of mediating institutions in the course of capital switching. Findings of these studies are effective to understand different forms of these interventions and support. Feagin (1987, 185-186) relates massive capital flows into office development in Houston to the "image" created in this city. The rise of the oil industry and the recovery of primary circuit in the city lead to the "hot" development climate of Houston. The role of the state in this image creation was substantial. First of all, **weak planning and zoning regulations** of local state **encouraged office development** across the whole metropolitan area of Houston. Rapid decentralization of office and business spaces occurred in the entire metropolitan area. In addition, **tax advantages** supplied by federal state regulations **spurred investments in real estate sector**. Firms invested into the secondary circuit in Houston not only to make profits but also to make federal tax savings. Consequently, **the image of the city created by the state in terms of loose planning and taxing**

**regulations played an important role to encourage new real estate projects in Houston.** This image affected the behaviors of key actors operating in real estate sector substantially. Feagin (1987, 186) notes that many development decisions were given by these key actors on the basis of “feel” and “image”.

Charney (2001) gives substantial support to the role attributed to financial and state institutions by Harvey. According to his study (2001, 750-52) the largest real estate companies in Canada are highly selective in choosing locations of investments. Toronto and Calgary were perceived as attractive areas for investments in real estate sector due to economic size, diversity and growth potential and particularly planning regulations and restrictions existing in these cities. Charney (2001, 752) noted that **restrictive planning practices in Vancouver city discouraged real estate companies** from investing in the city. **However** he additionally mentions that similar **restrictive planning and zoning regulations existing in Toronto were bypassed by exemptions provided to particular real estate projects**. The difference between planning practices and regulations in Toronto and Vancouver indicate that state intervention and support might vary locally. However in mainstream explanations state is conceptualized as a central state which provides all the necessary measures enabling capital switches.

Nunn (2003) contributes to these discussions regarding the relationship between the state and capital flows into the production of built environment. He carried out a research specifically on the relationship between public and private built investments. He attempted to find out the dynamics which influence the strength or level of the linkage between public infrastructure investments and private built investments. In other words, Nunn's study is about a particular form of state support in the course of realization of private built investments. That particular form is the infrastructure investments made by the state. Nunn's (2003, 49) basic assumption is that institution of planning and planning tools (planning and zoning commissions, master plans, planning staff, etc.) being operated within a jurisdiction will affect private investment patterns. According to him in jurisdictions where several and strict planning tools and regulations are used a closer coordination between public infrastructure investments and private construction activities should be expected. Nunn (2003, 49) also assume that the converse



claim is true as well. In jurisdictions where fewer and loose planning tools are available less evidence of close coordination between public infrastructure and private construction activities should be expected. In the light of these assumptions Nunn (2003) refines his initial questions and asks whether there is a connection between planning tools used for public infrastructure investments and private built investments. He (2003, 49) examines “how closely public infrastructure and private built investments are linked and whether the strength of the linkage is affected by differences in the planning environments of different jurisdictions”.

At the end of his research Nunn (2003, 60) concluded that “public and private built investment may change with varying levels of planning capacity in a region” and **“planning differences have a genuine effect on private investment decisions”**. He clearly shows that deeper planning capacity and strict planning tools being operated in a locality lead private sector to give built investment decisions according to especially the infrastructure investment decisions of public sector in that locality. Moreover the other side of this argument, which is also true, shows that in localities where **local state is “less capable of introducing spatial regulation”**, **“privately built investment is free to occur wherever and whenever the market decides”** (Nunn 2003, 51).

The conclusions achieved by Nunn (2003) are compatible with the discussions in Haila’s (1999) analysis on different modes of city building. Haila (1999, 260) claims that there exist different modes of city building in terms of urban policies being adopted in different parts of the world. Among those modes two of them seem essential in this context. Haila (1999) distinguishes “boosterism” in United States and “town planning” in Europe as different modes of city building. “Boosterism” constitutes a model in which “town boosters” who are individual businessmen seeking profit from built investments are the main driving force of urban development. In this model it is the market forces which determine land use decisions rather than any sort of planning system, tools or regulations (Haila 1999, 263-264). However town planning which has been the dominant mode of city building in Europe rests upon the idea that urban development should be controlled in order to achieve public interest and a balance between interests of businessmen and the society (Haila 1999, 264-265). Haila makes us to realize

that there are two different models concerning the production of urban built environment. While market forces are the dominant and active determining factor in one of them, planning forces in terms of zoning regulations and planning legislation have the leading role in the other. It seems possible to assert that if one of those forces starts gaining power in a case or in a context then the other will inevitably retreat or lose its strong position. There are also studies and research providing examples and evidences to this statement.

Coakley (1994) came across with such findings in his research on British case. Coakley (1994, 703) mentions that during the office boom of mid-1980s there occurred a mismatch between spatial requirements and specifications of new office provision such as large and flexible floor spaces and the planning restrictions and conservation policy concerning the old city center in London. This situation ended up with a growing **demand for laxer planning regulations** which **was satisfied** by the City Corporation by easing the restrictions within the conservation policy and planning regulations (Coakley 1994, 703). Moreover according to Coakley (1994, 705) **“one can view the liberalization of planning controls as part of the wider deregulatory process”** in the course of the **construction boom** during 1980s.

Berry and Huxley (1992) on Australian case not only shows how market forces ease or bypass restrictions within planning regulations but also figures out ways or forms of state intervention and support in order to benefit from the rapid real estate development. Berry and Huxley (1992, 35-40) focuses on rapid commercial property boom which was financed mainly by capital overaccumulated in domestic manufacturing and natural resources sectors in centers of most Australian capital cities during mid-1980s. An interesting finding of their research (1992, 45) is that the state and territory governments participated in the property market as new and essential actors in Australia. In other words, they observed an increasing tendency among different levels of Australian governments to facilitate the process of capital switching into the production of built environment. The reason for this tendency was discussed as the visible perception occur between real estate development like offices, hotels, etc and successful economic restructuring and growth. Governments in Australia intervened and involved in the production of urban built environment as a supporting, accelerating and facilitating actor in

order to gain from the perception that new and continuous physical development heralds economic well-being (Berry and Huxley 1992, 45-46).

Different forms of state intervention and support to facilitate real estate developments especially “mega-projects” were defined within the research on Australian case. Governments in Australia had either *sold public land or provided public infrastructure* to back up some of those mega projects. Second form of interventions had been *special legislation* in terms of special laws enacted for specific projects. **“Fast track planning and/or tendering procedures” were also introduced in Australia during the boom period** in particular cases at which removal of normal planning procedures were demanded. The final form of government support is defined as *“the provision, directly or indirectly, of financial guarantees”* (Berry and Huxley 1992, 48). This classification shows that there are **other forms of state intervention and support** rather than public infrastructure investments such as **supply of public lands, financial possibilities, deregulation and liberalization of planning legislation** and supply of necessary partial legislation.

The findings of these empirical studies mentioned lately indicate how and in what ways the state and the mediating institutions affect capital switches into the secondary circuit. Certain forms of state intervention such as relaxing, liberalizing or deregulating of restrictive planning decisions and development controls, providing land supply and finance, reducing tax levels, etc. are of crucial importance in creating a high investment profile to cities. According to us, discussions regarding the conditions of capital switching such as the roles of the state and mediating institutions constitute the third **“Focus of Attention”** within *capital switching approach*. We again developed crucial research questions and hypotheses related to this focus. Below, another set of hypotheses is given.

**Hypotheses Set 4:** Volume and path of built investments in urban areas would be determined or affected by the roles and policies of the state and the mediating institutions. The better the opportunities and policies provided by the state and related mediating institutions the massive the capital would be switched into the secondary circuit. Bypassing of restrictive planning regulations and decisions, relaxing of strict urban development controls are the common and widespread forms of state support and intervention.

## **2.4. NEOCLASSICAL EXPLANATIONS TO COMMERCIAL PROPERTY DEVELOPMENTS: ARGUMENTS ON BUSINESS AND BUILDING CYCLES**

A critical point within *capital switching approach* is appeared to be the relationship between primary and secondary circuits. According to the mainstream explanations there is a counter-cyclical relationship between them. However there are several empirical researches indicating that the relationship between these two circuits may be cyclical and autonomous. We noted these different views and arguments as a “Focus of Attention” and derived several hypotheses from these arguments in the course of our theoretical discussion. Here in this section an alternative argument about the relationship between primary and secondary circuit activities, in more appropriate terms between business and building cycles will be introduced. This argument is developed by the scholars following the tradition of Neoclassical Economics.

Neoclassical explanations concerning the developments on property markets generally aim at modeling the relationships between property investments and the economy. They intend to explain the cycling tendencies in property investments in relation to the cycles of the economic activity. Although there are different arguments within the neoclassical explanations all of them are based on the acceptance of a common idealized property cycle. Ball and others (1998, 196-197) provide the explanation of the pattern of this idealized property cycle by referring to the related studies. According to this pattern, the idealized property cycle consists of five different stages.

The first stage is entitled as “business upturn and development”. This stage is characterized by a rise in economic activity and user demand due to the availability of high amounts of capital and low rates of interest (Ball and others 1998, 196). In other words, the initial step of a property cycle is a rise in economic growth. Another important feature of this stage is assumed as the low level of development activities in terms of investments in property markets and in construction activities. Quick absorption of the few available spaces results in a fall in vacancy rates and a rise in rents. These developments give way to an optimistic investment atmosphere with lower expected risk and higher expected profitability for new development projects. Under such circumstances developers and investors generally respond positively to the market signals and initiate new

development projects. In the course of the construction boom new developments extend to more speculative developments. This entire situation is assumed to continue for a while because new supply reaches the market piecemeal due to the lag between construction starts and finishes (Ball and others 1998, 196-197).

The second stage of the idealized property cycle is entitled as “business downturn and overbuilding”. This stage is mainly characterized by a decline in economic activity due to the rise in real interest rates (Ball and others 1998, 197). In more concrete terms, this stage corresponds to a downturn in the business cycle. One of the major impacts of this downturn is assumed to be the decline of the demand for and absorption of new spaces. However the decline process in economic activity coincides with the completion and provision of new developments. Under these circumstances vacancy rates begin to increase and rents begin to decrease. The inevitable result of this stage is the oversupply in property markets (Ball and others 1998, 197).

The third stage, which is described as “adjustment” stage, is mainly related to the consequences of the previous two stages. This stage is characterized by the coupling of the fall in the demand for new spaces and the peak in the supply of these spaces. It is assumed that vacancy rates rise above their equilibrium level and fall in rents continues in this stage. The major impact of this stage is observed on the developers. As they face difficulties to generate income and receive poor returns developers not only stop investing in the property markets but also go bankruptcies (Ball and others 1998, 197).

The final two stages of a property cycle are entitled as “slump” and “the next cycle”. Slump stage can be described as the continuation of the decline or downturn in the building cycle. Demand for new spaces and hence new developments remain at lower levels in this stage. Vacancy rates are assumed to be higher than their equilibrium levels, while rents are assumed to be lower than the equilibrium levels. As the process described up to now is defined as a cycle, which means a process repeats itself, the final stage is entitled as “the next cycle”. It is assumed that the effects of the building downturn should stop when the next business upturn, which is a rise in economic activity, starts. However it is also noted that depending on the level of the oversupply in the property market

the effects of the building downturn may extend to the next business upturn (Ball and others 1998, 197).

The discussion on an idealised property cycle indicates that according to the arguments in neoclassical explanations building cycles are conceptualized as parts of general business cycles. The reason for this is that in these arguments demand for property is accepted as the demand derived from the need for a place to undertake economic activities. Haila (1991, 346) sums up these arguments as “theory of derived demand” and she notes that this theory explains investments in land and property markets in relation to the rise of demand for commodities. According to her, “theory of derived demand” assumes that demand for properties and new property investments are derived from the profitability and utility attached to the use of these properties. Consequently it should be mentioned that there is a fundamental difference between neoclassical explanations and capital switching approach. In the latter approach, new investments in land and property markets are related to a decline in the primary circuit activities, such as industrial production, etc. However in neoclassical explanations it is assumed that the rise in economic activity comprising mainly the primary circuit activities ends up with a tendency to a rise in construction activities.

## **2.5. THE LIMITATIONS OF CAPITAL SWITCHING APPROACH**

Capital switching approach will constitute the theoretical framework of our research. This approach as a theoretical framework enables us to understand the urban processes with reference to some key features and elements of capitalist economic system. Like many other theoretical frameworks, capital switching approach has a fundamental rationale which provides it an explanatory power and some structural limitations as well. Discussions made in the previous sections introduced the explanatory power of the approach. However it is also necessary to discuss the limitations of the approach. These limitations will be discussed on two different contexts in this part.

First of all, capital switching approach provides a theoretical framework to analyze the capital movements between different sectors of the economy. In this context, the approach is highly in relation to the general economic order and processes. The reason for this is that general economic order and processes are the main

determinants of the ways through which capital is created, accumulated and transferred. Most of the arguments within *capital switching approach* were developed in 1970s and in the early 1980s. As the general economic order was largely based on and consist of national economies at that period the fundamental rationale and the concepts of this approach were developed in accordance with such an order. For this reason, capital switching approach as a theoretical framework is more applicable to an economic order consists of economies operating at the national level. In other words, this approach has a greater explanatory power in case of closed systems. In a highly global world where capital is highly mobile and has geographically various options to flow, capital switching approach starts losing its explanatory power. In such a global case, when an overaccumulation problem occurs capital owners would not be limited only to switch their capital into secondary or tertiary circuits within their original location but would have the chance of investing it into another primary circuit activity in a different part of the globe. Therefore it should be noted that capital switching approach is more applicable and descriptive on closed systems.

The second context of the limitations of the approach is about sources and quality of the research data. Structurally, a research based on this approach would benefit from secondary data rather than the primary one. It is not easy for a scholar to develop his own data indicating the capital movements between sectors and investments in certain sectors. For this reason, in order to test this approach in certain contexts scholars should have the possibility to reach the necessary data and information on investments in the related sectors. In other words, well-documented official data is essentially needed for an application of this approach. However there are some contexts in which it is highly difficult to reach reliable and documented data on economic sectors. In such cases, where informal economy and informal development are highly dominant, capital switching approach could barely guide concrete research. Therefore it should also be noted that this approach is more applicable to contexts where majority of the related data is officially documented and provided.

According to us, in spite of these limitations, capital switching approach is still providing an essential and influential theoretical framework for analysis and concepts for research in many contexts in the world.

## 2.6. CONCLUSION

After discussing the major theoretical approaches and arguments on urban development we concluded that arguments discussing urban processes in relation to capital accumulation seemed more appropriate to investigate the initial research questions of this thesis. In this context, we examined comprehensively the related studies and arguments constituting *capital switching approach*. Throughout this examination we attempted to note the critical and essential points within this approach. We defined three “**Foci of Attention**” concerning the critical points within *capital switching approach*. According to our opinion, these foci should be accepted as the critical points which enable us to derive concrete research questions and hypotheses. We developed four “**Sets of Hypotheses**”, each of which includes several essential hypotheses to be tested in empirical research.

In this concluding section our intention will be to present and discuss briefly the *capital switching approach* in a systematic way through which the reader could grasp not only the mainstream explanations of the argument but also the supporting and challenging ones. Figure 2.1 illustrates the *capital switching approach* in a way to indicate all the critical points, foci of attention and basic discussions that we want to emphasize.



# CAPITAL SWITCHING APPROACH

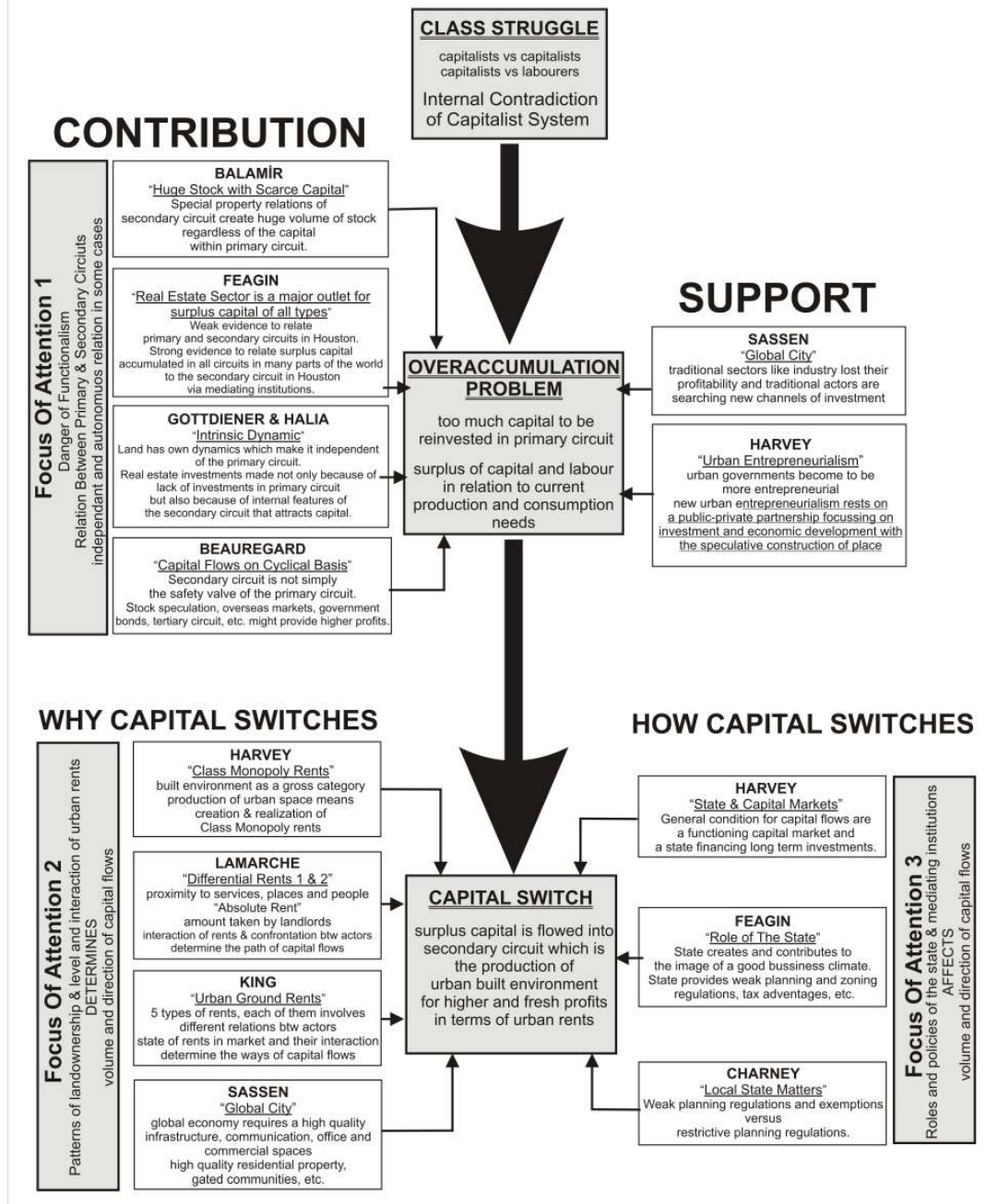


Figure 2.1: Summary of Theoretical Approach

*Capital switching approach* aims at explaining urban processes with reference to capital accumulation processes which is accepted as the driving force of capitalist economy. Two elements of capitalism, specifically capital accumulation and class struggle are assumed to be interrelated and hence the outcomes of their relationship are argued to be the factors affecting urban process. Harvey's studies and arguments constitute the mainstream explanations of *capital switching approach*. Harvey defines a process starting with class struggle as a central and inevitable contradiction in capitalism and proceeds through the production of urban space (figure 2.1). According to this process, overaccumulation problem, which is the major reflection of class struggle, forces capitalists to switch the excess capital into some alternative fields. Among these fields, secondary circuit of capital accumulation, which is the production of urban space, is assumed to be the first and the common alternative.

According to *capital switching approach* class struggle is defined as the major source of the contradictory character of capitalist system. Although there are two different forms of class struggle the one which emerges within the capitalist class is assumed as more threatening to the continuation of capital accumulation. According to the mainstream explanations, capitalists, who are freely acting and competing with each other under capitalist mode of production, tend to overaccumulate within the primary circuit. In other words, capitalists as a heterogeneous and competing class, produce too much capital which is difficult to employ back within the primary circuit. In such a case, overaccumulation problem as an inevitable outcome of class character of capitalists arises. However this problem has to be solved in order to ensure the survival of the capitalist system. Secondary circuit of capital accumulation, which is the production of the built environment, is accepted to be an alternative channel for directing investments under such circumstances. So urban areas are not only accepted as a ground for capitalism but also conceptualized as a field for new profitable investments. Consequently mainstream explanations of *capital switching approach* assert that **overaccumulation problem, which arises as a result of class struggle under capitalism, ends up with a tendency to switch the excess capital into new channels of investments. Production of built environment is the main one of these new channels for investment.**

Mainstream explanations discussed above are both challenged and supported by some studies and research. The issues addressed by these criticisms and discussions could be noted as the critical points within the approach. A group of these points emerge out of the discussions concerning the relationship between primary and secondary circuits. The other group emerges out of the arguments discussing how and why capital switches into the secondary circuit occur. We have grouped these challenging and supporting arguments under three different “Focuses of Attention”, which are illustrated on figure 2.1.

First “**Focus of Attention**” is an outcome of the discussion concerning the relationship between primary and secondary circuits. Some authors suggest that primary and secondary circuits should not be related closely to each other. They argue that secondary circuit of capital accumulation, which refers to real estate sector, has some internal dynamics. This leads secondary circuit to be autonomous from the primary one in some cases. In other words they argue that secondary circuit involves some “complex patterns of realization of surplus value” which structurally differentiate it from any other circuits (Bassett & Short 1980, 177). This makes real estate sector or the production of built environment not an alternative and temporary but permanently an attractive channel of investments. However the mainstream explanations developed by Harvey suggest a counter-cyclical relationship between these sectors. He defines capital switches between primary to secondary circuit as a temporary solution in case of an overaccumulation problem.

Second “**Focus of Attention**” arises out of the discussions about the process of capital switching into secondary circuit. The main reason behind capital switching is shown as the high rates of profits attached to real estate investments in urban areas. As the form of profits in urban areas is urban ground rents, discussion regarding rents becomes essential within the approach. Mainstream explanations of *capital switching approach* give a central role to ground rents. According to these explanations profits arise and hence gathered in the form of class monopoly rents in urban areas. However in Harvey’s analysis an essential dimension seemed lacking. That is the relationship between different elements of built environment and different forms of ground rents. This gap is filled by the studies of other authors. For instance Lamarche, by defining different forms of rent argues

that different elements of built environment have different rent providing capacities. For him, residential properties have limited capacities while commercial and office developments are effective in creating high profits in terms of differential rents. He also refers to the confrontation between landowners and developers as a crucial point since both have the same aim that is to maximize their share of rents. So if rents and their different interactions as well as landownership are assumed to be effective then it could be concluded that capital can not easily switch from primary to secondary circuit in every context. The volume and path of this switch would be affected by rents and the confrontation between landownership and developers. Similar views, which stress the importance of rents, were also mentioned by some other authors. They all argue that rents, as forms of profits in urban areas, are location specific and change in accordance with type of investment as well as the pattern of landownership. Therefore it is not useful to conceptualize built environment as a gross category by ignoring different elements of it. Instead it is more useful to conclude that;

- Each context has different institutions which affect the level of rents and actors gaining from these rents,
- Volume and path of investments in the secondary circuit are affected and to some limit determined by the rents, their interaction and positions of rent seeking actors,
- Capital may switch to some other fields like tertiary circuit or financial markets instead of the secondary one in some contexts where rent creation and absorption seem difficult.

The third “**Focus of Attention**” arises out of the discussions regarding the conditions under which capital switches occur. Mainstream explanations emphasize the roles of the state and mediating institutions especially the financial institutions as essential factors affecting the capital switches between different circuits. Harvey argues that capitalists individually could not manage to switch the excess capital to the production of built environment. State and financial institutions should support capitalists to realize the capital switches. He also notes that existence of these mediating institutions as well as their capacities affect the volume of capital flows. This perspective is widely supported by some research

and studies. For instance Feagin states that tax system and planning regulations were arranged in a way to encourage capital switching into real estate sector in Houston. He also argues that some mediating institutions especially financial institutions played essential roles along this process. Charney's study also supports this view by showing how real estate developers change their locations of investment due to the policies of local state in Canada. He discusses that local policies of the state especially the planning and zoning policies directly affected the location selection of real estate companies. Therefore it seem appropriate to conclude that in addition to rents and landownership, roles of the state and financial institutions are also important factors affecting capital switching into the production of built environment.

Consequently after discussing the *capital switching approach*, which constitutes the theoretical basis of our study, departing from the main hypothesis and initial research questions, we formulated the major hypotheses of this study as follows:

**Starting Hypothesis:** There is a significant flow of capital from primary to secondary circuit of capital accumulation in Turkey. Especially after 1980, substantial amount of capital is switched into the production of built environment as an alternative and profitable field of investments.

**Hypothesis 1:** Capital switches between primary and secondary circuits in Turkish context reflect a counter-cyclical relationship between these two circuits. In more concrete terms, the rise in construction activities or capital switches into secondary circuit is related to a fall or a decline in primary circuit activities. In this context, secondary circuit provides the dominant and preferential alternative for the primary circuit.

**Hypothesis 2:** In the course of capital switches in Turkey, state intervention in terms of supportive and necessary policies and decisions plays an essential facilitating role. In other words, state contributes crucially to the process of capital switches by means of various legal, institutional and financial regulations and policies. The better the opportunities and policies provided by the state and related mediating institutions the massive the capital would be switched into the secondary circuit. Bypassing of restrictive planning regulations and decisions,

relaxing of strict urban development controls are the common and widespread forms of state support and intervention.

**Hypothesis 3:** Ground rents and patterns of landownership are the other significant influential factors behind capital switches between primary and secondary circuits in Turkey.

## CHAPTER 3

### EXPLORING THE CONTEXT: Economic and Spatial Structure in Turkey

#### 3.1. INTRODUCTION

After having made a theoretical discussion on the relationship between urban processes and capital accumulation the context of the research will be explored in this chapter. The aim of this chapter is to discuss whether or not Turkish Case is relevant to test *capital switching approach*. In other words our intention is to inquire the applicability of *capital switching approach* to Turkish experience of urbanization. In order to carry out this inquiry, we will concentrate on economic and spatial dimensions and features of Turkish context in a historical manner. In more concrete terms the economic and spatial structures of Turkey in the recent past will be discussed.

Throughout the discussions on economic structure we will check whether different periods with different economic policies leading to different capital accumulation regimes could be distinguished in the recent economic history of Turkey. Likewise the discussions on spatial structure will help us to see how capital accumulation and urban processes have been related to each other under these different capital accumulation regimes, if any observed.

Essential changes regarding the social, political, economic and spatial structure of Turkey has occurred since 1950. The political regime was converted from a single-party regime to a multi-party democracy while agriculture-based economic system was changed to an industry-oriented system. The process of rapid urbanization has also started after 1950 in tandem with import-substituting industrial development. Therefore, we will confine the discussion on economic and spatial structures and features of Turkey to post-1950 period in this chapter.

### **3.2. THE ECONOMIC STRUCTURE OF TURKEY**

It seems likely to distinguish two different consecutive periods when the past 50 years of economic and social system in Turkey is considered. In each of these periods different capital accumulation regimes (CARs) resulting from different economic policies were implemented. Industrialization was accepted as the main way of achieving economic development during the post-war years, especially after mid 1950s. Import-Substituting Industrialization (hereafter ISI) as a peculiar form of economic regulation and as a strategy of economic development was implemented after mid 1950s till 1980. This constitutes the first period in the recent history of Turkish economy, which can be named as *period of industrialization through import-substituting*. However 1980 has been an important milestone separating two periods. The economic system in Turkey underwent a restructuring process in the early 1980s. It should be noted here that this restructuring included essential and deep transformations of capital accumulation regime and of social and political life. Therefore we should accept that two different periods with two different CARs in Turkey can be distinguished since 1950.

#### **3.2.1. Import-Substituting Industrialization: A Privileged Form of Profit Making by Selected Capitalists under the State's Steering**

Import-Substituting Industrialization (ISI) was accepted as a strategy of economic development in Turkey after 1950s. However the roots of this form of industrialization dated back to the early 1930s in the world. Some Latin American countries initiated the first experiences just after the first global economic crises. The main reason behind ISI strategy is explained as the problems and bottlenecks of a Capital Accumulation Regime (CAR) based on agricultural sector and on export of agricultural products (Pamuk 1984, 40). Countries importing consumer goods in return for exporting agricultural products faced essential problems in affording their import costs due to the decreasing level of demand for agricultural products after 1929 crisis (Pamuk 1984, 40). In such a conjuncture ISI was seen as an effective strategy by which "production within the country itself of previously imported goods" could be performed (Işık 1991, 134). Despite the timing differences between Turkish and Latin American experiences ISI strategy derived from the same reason in both cases (Pamuk 1984, 40).



The failure of economic policies oriented towards gaining from export of agricultural products in the early 1950s led to adoption of ISI strategy in Turkey (Pamuk 1984, 40). The state, instead of spending its limited resources on import of consumer goods, preferred to substitute domestic production of those goods, for imports not only to save resources but also to develop the national bourgeoisie. Although the early attempts in Turkey dated back to 1950s the legal and institutional dimensions of the ISI strategy were drawn up by 1960 (Pamuk 1984, 51). The period, which covers the years 1963-1977, has been the golden age of ISI. During this period ISI strategy was implemented continuously without facing serious problems. It should also be noted that ISI strategies in those years enabled high rates of economic growth and capital accumulation in Turkey (Pamuk 1984, 51).

#### 3.2.1.1. The structure of ISI and the Turkish Experience

The ISI strategy starts with preventing import of some consumer goods. The strategy aims to satisfy the production of those goods within the country by local capitalists. The goods produced are thus subjected to consumption within the country. In other words substitution of local production for imports is the main principle of ISI strategy (Işık 1991, 134). However in order to ensure the domestic production and consumption of goods various policies of protection are to be implemented. The main focus of this protectionism is on the well-functioning of the domestic market. In other words protection of domestic market from international competition is a prerequisite of ISI. High tariff barriers, quotas and restrictions on imports and some customs policies are instances of protection policies under ISI. All these policies aimed at protecting domestic market from international competition and at providing profitable room for national capitalists to produce for that market (Işık 1991, 140).

Although protectionism under ISI is of vital importance it does not apply to all products. Restrictions on imports in terms of quotas are limited to some consumer goods rather than intermediate goods or capital goods (Pamuk 1984, 41). Technology in terms of capital goods and some intermediary goods are to be imported in order to create industrial premises producing the final product. In other words one of the preconditions for adopting ISI as a CAR is to import the technology and inputs since domestic production of previously imported goods

can only be performed under such an import policy (Keyder 1984, 15). Therefore under ISI national capitalists produce consumer goods by using imported technology and inputs within an environment protected from international competition through various restrictions on imports of consumer goods (Keyder 1984, 15; Işık 1991, 135).

### 3.2.1.2. Roles of the State under ISI

As protectionism is not a natural outcome of market functioning it has to be organized and controlled by an actor, which is certainly the state. The state has to play important roles under ISI. For this reason ISI as an economic policy is defined as “a process of industrialization involving massive state intervention” (Pamuk 1984, 39). There are certain areas, which have to be touched by the state under ISI. First of all, state has to introduce several protection policies in order to shield the domestic market from international competition. This protection ensures the sale of goods produced and provides essential profits to producers without facing their foreign colleagues. Secondly, state provides cheap credits to the privileged actors of economy via low rates of interest. The aim of this is to encourage entrepreneurial activities and to ensure the necessary investments. There is also another vitally important area under ISI, which requires state intervention. As mentioned before, technology, capital goods and intermediary goods are to be imported to carry out the domestic production of consumer goods. So the availability of foreign exchange and the way it is (re)distributed among actors of economy become important to keep the system functioning. State then has not only to provide foreign exchange but also ensure that right actors of economy are spending it (Pamuk 1984, 41).

The three major roles, which are theoretically assigned to the state under ISI, were performed by the state in Turkey during the implementation of ISI strategy (Pamuk 1984, Keyder 1984, Işık 1991). State introduced various policies in order to constitute and sustain the domestic market necessitated by ISI. The domestic market was protected from international competition by means of restrictions and quotas on imports of some consumer goods and controlled customs policies (Işık 1991, 141). Although this type of protection is essential, it is not enough to increase the profit-making capacity of the market. For this reason once the domestic market is protected from international competition it should also be

broadened and deepened in terms of creating large number of consumers with greater purchasing power (Işık 1991, 143).

State's redistribution policies especially the wage policy played an important role in serving both aims in Turkey during ISI era. Collective bargaining system including strong trade union rights was provided to the working class as a part of redistribution policies in this period (Keyder 1984, 20; Pamuk 1984, 57). Real wages of workers in industrial sector doubled between 1964 and 1978 (Keyder 1984, 21). The rapid increase of wages was not only limited to the industrial sector. State had been very generous towards civil servants and agricultural sector as well (Pamuk 1984, 57). While civil servants were receiving sufficient increases in their wages people engaged in agricultural sector were enjoying the incentives and support policies increasing their revenues. Wage increases were not seen as a threat to capital accumulation. This is because the popular masses become consumers with greater purchasing power as a result of those increases in their individual or household incomes. In other words wages under ISI were facilitating the profitability of the industrial sector in spite of the fact that they were elements of production costs (Pamuk 1984, 57-8).

State intervention to broaden and deepen the domestic market was not limited to the wage policy. State aimed to support popular masses by introducing some other social policies and providing indirect incomes as well as the direct ones. Provision of an inclusive social security system, adequate retirement pensions, almost free health and education services were instances of social policies increasing the individual and household incomes indirectly (Keyder 1984, 22; Işık 1991, 144). In addition to these policies state's tolerance towards squatter settlements can be considered as a part of redistribution policies (Keyder 1984, 23). In other words the state in Turkey under ISI was also providing its lands for free to rural immigrants in order to decrease their cost of sheltering.

Moreover the state during ISI era involved in the industrial sector as a producer as well. The state invested in sectors like iron-steel, machinery-agriculture, paper which require too much capital and providing low level of profits. By investing in those sectors the state aimed at producing some intermediary goods as inputs for the production of final consumer goods (Keyder 1984, 25). The intermediary goods produced by the state were sold to private enterprises with subvention in

order to satisfy them a more profitable milieu of production. However this form of state intervention not only aimed to provide cheap inputs to private sector but also to keep them free from investing in sectors which absorbs massive amount of capital.

The state during ISI era undertook a major role in providing and allocating a scarce resource which is the foreign exchange. The reason for this was the dependent structure of import-substituting industry. Dependency is upon the technology and intermediary goods, which had to be imported, from the home countries of the factories transferred. In such a conjuncture availability of foreign exchange played an essential role for the survival of the system (Pamuk 1984, 47). Production could only be carried out if the necessary foreign exchange is supplied to the producers who were willing to import some inputs. For this reason Keyder (1984, 15) claims that there is a direct relationship between the volume of imports and the level of domestic production under ISI. However availability of foreign exchange had always been a serious problem for underdeveloped countries like Turkey. During ISI era the state in Turkey undertook the task of supplying foreign exchange to the privileged capitalists (Keyder 1984, 27). Nevertheless the major of way of finding foreign exchange has been borrowing money from the international institutions and some programs (Keyder 1984, 29-31).

Another aspect of state's role regarding foreign currency was about the exchange rate of local currency against foreign currencies. During the era of ISI the state preferred to keep the exchange rate of Turkish currency against foreign ones artificially higher than market prices (Işık 1991, 154). The effort was not only to make imports easier but also to guarantee high profits when the imported intermediary goods are converted into final goods which are being sold in return for local currency (Keyder 1984, 27).

All in all, it is appropriate to note that the state massively involved in the economy during ISI era. Environment created through the efforts of the state under ISI provided higher amounts of profits to the capitalists producing for the domestic market. The reasons for this have been the availability of protected and broadened domestic market, of cheap inputs provided by state's enterprises and of cheap foreign exchange. Under such circumstances capitalists did not only

gained profits by exploiting the surplus created by labour power but also benefited from “protection rents” as a part of their profits. Işık (1991, 151) concludes this in a very precise way and claims that during the ISI era “manufacturers realized high rates of profit they could not hope to attain if they faced competition from foreign producers”.

### 3.2.1.3. Crises Tendencies under ISI

ISI has a distinct feature in terms of involving a staged pattern. In that respect it differs from the way through which developed countries have been industrialized (Pamuk 1984, 42). Unlike the comprehensive way of industrialization of developed countries, industrialization process under ISI starts initially with the production of consumer goods and then supposed to proceed through the production of intermediary and capital goods. So this implies two distinct stages under ISI first of which is the stage includes the domestic production of light and durable consumer products by using imported inputs. Second stage refers to the expansion of domestic production into intermediary and capital goods, which supposed to finish the need for the import of those inputs (Işık 1991, 142). Although first stage is being labeled as the easy stage transition between these stages is labeled as the difficult phase in ISI (Pamuk 1984, 42; Işık 1991, 142). The potential crises under ISI are very much related to the staged structure of this form of industrialization.

Pamuk (1984, 43-44) indicates two important structural bottlenecks of ISI derived from its staged character and claims that these bottlenecks could possibly trigger a crisis. As the strategy is based on the production of consumer goods at the easy stage ISI becomes dependent upon certain conditions. One of those conditions is the availability of a domestic market with a large number of consumers (Pamuk 1984, 45). In a situation where the required domestic market is not constituted or sustained and the goods produced remain unsold the economic system may face an overproduction crisis (Keyder 1984, 16). The other conditions upon which ISI becomes dependent are the availability of foreign exchange and import of intermediary and capital goods (Pamuk 1984, 45). Dependency upon foreign exchange and imports may be the most important dynamic behind a crisis under ISI. Decreasing level of imports due to a shortage of foreign currency would put the economic system into a falling rate of profit crisis since local manufacturers

would not be able to carry out production without inputs. This crisis tendency in terms of falling rate of profits is eliminated either by ensuring to obtain the annual foreign exchange needs of economy through exports or by expanding the local production into intermediary and capital goods. Nevertheless ISI puts structural limitations on these two strategies. First of all ISI, is not an export oriented regime of capital accumulation. The high exchange rates of local currency against foreign ones as well as foreign exchange policy in general penalize exports since exporters would receive low level of profits (Işık 1991, 154). So it becomes very difficult to obtain foreign exchange via exports under ISI. Secondly it is also difficult to produce the inputs locally instead of importing them. Pamuk (1984, 42) mentions that no undeveloped country has managed to proceed to the production of all the capital goods it needs under ISI.

There is also one thing which should be noted here, that is the structural features of industrial firms and enterprises developed under the staged pattern of ISI. During the easy stage of ISI local manufacturers enjoy high rates of profits including protection rents exploited from a protected domestic market. This process generally ends up with an oligopolistic industrial sector which got used to realize high rates of profit due to the protected local production environment (Pamuk 1984, 41). Under such circumstances regardless of the production they do for domestic purposes local industries almost certainly remain immature in terms of scale, organization, technology and quality of production. This situation has two major consequences. First of all, locally produced goods hardly meet the international standards of price and quality (Keyder 1984, 17), which means export of those goods to provide foreign exchange, is almost impossible. Secondly local firms and enterprises could not easily manage to jump one step forward and start producing intermediary goods.

#### 3.2.1.4. The Crisis of ISI in Turkey: Scarcity of Foreign Exchange

The ISI in Turkey faced an important crisis between 1977 and 1980. The rapid industrialization process of 1960s and early 1970s reached its end after 1977. Economic growth almost stopped with the beginning of 1977. The GDP per capita decreased 1 percent between 1977 and 1980 whereas it had increased 25 percent between 1972 and 1975 (Keyder 1984, 32). The major factor behind the crisis was the balance of payment problems since the other factors played minor

roles in crisis formation in Turkey (Işık 1991, 153). Pamuk (1984, 58) mentions that ISI in Turkey did not face any problem occurring from the organization of domestic market. He also mentions that the profit making capacity of the domestic market even discouraged manufacturers from investing into the production of intermediary and capital goods. For this reason dependency upon foreign exchange and imports paved the way to the crisis.

In order to understand the factors behind the crisis it is necessary to explore the ways the state obtained foreign exchange in Turkey. One of the acute problems of Turkish economy has always been its dependency upon the state and upon foreign institutions to obtain the necessary foreign exchange to cover the deficits of foreign trade. The ratios of foreign trade deficits over GDP in Turkey were 2.8% in between 1961-1965, 2% in between 1966-1970 and 5.6% in between 1971-1975 (Keyder 1984, 31). In other words the existing balance of payments problem in Turkish economy even got bigger during ISI due to the low level and return of exports since ISI is an inward-oriented strategy. Under such circumstances the need for foreign currency is satisfied by benefiting from international programs and by borrowing from international institutions. During the first two decades of ISI external circumstances enabled the state to obtain desired foreign exchange from the above-mentioned sources. Some US funds especially the Marshall Aid has been major source of foreign exchange during the first decade. Foreign exchange transferred from the Turkish workers employed in abroad has been another source of finance especially after 1970. It should also be noted here that the privileged position of Turkey as being a close neighbour of USSR facilitated the transfer of easy loans during the cold war period. Thus it is clear that favourable external circumstances facilitated the implementation of import-substituting industrialization starting from 1960s till 1977 in Turkey. However the external circumstances were changed after 1976 due to the increase in oil prices and world economic crises. State then faced serious problems in satisfying foreign exchange need of Turkish Economy.

The global crisis in 1977 decreased the amount of loans available and hindered the supply of credits. Foreign exchange scarcity reached its peak between 1977 and 1980 (Işık 1991, 198). Under these circumstances the inability of Turkish State to repay the short-term loans and the high levels of foreign trade deficits

stopped the flow of external funds (Işık 1991, 198; Keyder 1984, 31-32). The shortage of foreign currency reduced the levels of imports, which resulted in a decrease of local production between 1978 and 1980 (Keyder 1984, 34). Industrial production and capacity utilization in manufacturing dropped in that period. However the level of employment and wages were sustained by the strong efforts of trade unions. The ratio of wages in value added increased from 31.7% to 37.3% between 1976 and 1979 (Keyder 1984, 34). The industrial bourgeoisie were not happy about wage increases this time because of the fact that the material conditions for production had almost stopped. In other words wage increases threatened capital accumulation due to the falling rate of profits (Keyder 1984, 34). The key factor was the scarcity of foreign currency. The state was unable to obtain and allocate foreign exchange. Under these circumstances CAR and the class alliances on which the regime is based began to collapse (Işık 1991, 154). It did not take so long for the state to face the crisis and the chaos in economic and social system in Turkey. The year 1980 has been the milestone in Turkish history separating two different economic regimes.

### **3.2.2. Export-Oriented Growth Model: Outcome of Restructuring**

Impacts of the economic crisis were deepened in the late 1970s. Almost all portions of society were suffering from the crisis situation. While popular masses were suffering from high rates of inflation and unemployment as well as the scarcity of consumer goods capitalists were in search of ways to stop falling rate of profits and to improve the material conditions of production (Boratav 2003, 145-146; Altıok 1998, 252). State was suffering from balance of payments problem in terms of increases of foreign debts and foreign trade deficits (Altıok 1998, 252). Under these circumstances the state responded to crisis situation by developing a new program that would change the economic system radically. The basic principles and regulations of the new system were introduced on 24.01.1980. It should be noted that the response in terms of transforming the economy was not merely an internal one. In more concrete terms, the major lines of the 1980 program were drawn up by International Monetary Fund (hereafter IMF) (Işık 1991, 199; Boratav 2003, 147). Although the new program was introduced as stabilization program to overcome the existing crisis it was different than IMF's stabilization programs introduced during post war period in Turkey. The way it



differs from previous stabilization programs is that the last program introduced in 1980 aimed at transforming the existing capital accumulation regime into a new one. In addition the new CAR also meant a radical transformation of social and class relations (Işık 1991, 199-200). Boratav (2003, 148) mentions that the new program also included a perspective to incorporate Turkey into the global restructuring of international capital.

#### 3.2.2.1. Defeat of Working Class under and after Military Coup

The new program introduced in the early 1980s was designed to transform the CAR from an inward-oriented one into an export-oriented one. The state's policies were oriented towards opening the economy to and incorporate it into world markets via export of locally produced goods. The most dynamic sectors of economy would in such a case be the ones serving export markets (Işık 1991, 200). Thus dependence of economic growth upon foreign loans and credits was supposed to be finished since the economy would earn its own foreign exchange through exports. The fundamental measures of the new program were designed in accordance to this logic. However during ISI era some structural limitations were imposed upon the export capacity of local firms and enterprises. Mainly due to availability of high protection rents and shielding of domestic markets from international competition national producers had gained a competitive disadvantage in exporting. Hence measures brought by the new program aimed at adjusting some of the factors of production to create competitive advantages for national producers and industrialists.

First of all a high rate of devaluation was introduced as one of those measures (Boratav 2003, 149). The exchange rate of Turkish currency against foreign currencies reduced to a low level in order to provide profitable basis for exports. In addition to devaluation of local currency new program introduced some other measures to decrease demand in domestic market and discourage production for this market. Massive price increases for the products of state economic enterprises, reduction of support and controlled prices, elimination and reduction of supports and subsidies on agriculture, etc. were all introduced to serve these goals (Işık 1991, 200). However reduction of demand in domestic market was not enough to encourage exports. That's why the major field of intervention dictated by new program was labour market, especially wage policy. The existing level of

wages, as merely an element of production costs, was seen as the major source of competitive disadvantage (Boratav 2003, 150). In other words the only way of producing goods at international market prices or lower is accepted to decrease production costs by reducing and controlling real wages. Measures designed to serve this aim meant a drastic change in income distribution. However it was not an easy task to change income distribution drastically under normal and democratic circumstances.

Military coup which occurred seven months after the introduction of the new program changed those circumstances. Army took over the political regime on 12.09.1980 for the following three years. The parliament was suspended and all the political parties and organizations were banned during those 3 years. The military coup suspended the democratic system, which would otherwise face essential difficulties in implementing the new program fully (Boratav 2003, 148). In other words the Turkish Army established the political regime that fits the new mode of capital accumulation (Işık 1991, 200).

The major impact of policies dictated by the military coup was on the labour market. The military banned all the activities of trade unions including strikes and collective bargaining. Under such circumstances a special committee rather than a bargaining process between trade unions and employers determined rate of wage increases (Boratav 2003, 150). All these were the main measures of decreasing the levels of real wages in order to reduce production costs. Military coup undertook these measures successfully. "Real wage index (1963=100) dropped from 166.3 in 1977 to 93.5 in 1980 and 79.7 in 1985" (Işık 1991, 200). Wage reductions in private sector followed by similar trends in public sector and agriculture. Civil servants also suffered from the reduction of their real wages as well their retirement pensions. In addition the elimination of support for agriculture reduced the incomes of people engaged in agricultural sector (Boratav 2003, 151). As a result of these policies the share of wages and salaries in national income reduced to 20% in 1983 whereas it was 35% in 1978 (Boratav 1988 cited in Işık 1991, 200).

As seen in the above figures new model of economic growth was based on the ignorance and intense exploitation of working class. The main incentive to encourage exports was accepted and implemented as reduced labour costs.

Lower wages not only served to reduce production costs but also decreased the purchasing power of working class. Thus domestic market was becoming unprofitable and unattractive. Wage policy was also coupled with tight incentives, cheap credits and tax reductions for export facilities. Consequently economy was liberalized through incorporating it into international export markets via the support of reduced labour costs and strong financial incentives (Altioek 2002, 90).

Major guidelines of the new program continued to be implemented after the withdrawal of the military in 1983. According to Boratav (2003, 150) time in between 1984-1988 constitutes a sub-period during which the general requirements of the new program were fulfilled. In other words he claims that the new program was implemented almost fully and continually between 1980 and 1988. A major indicator of this was the continuous decline of real wages till the end of 1988. Real wages in 1988 were 18 % lower than in 1983 (Boratav 2003, 152).

Tax system was also subjected to some changes during this sub-period. The main aim of the changes was to support manufacturers serving export markets. Income tax reductions and exemptions were introduced for firms and companies. The possible decline of tax revenues of the state was compensated by introducing new type of taxes like the Value Added Tax adopted in 1985. However the result was the reverse of what was intended. As income tax program was mainly based on taxes on salaries and value added tax of consumers the share of taxes in national income decreased tremendously (Boratav 2003, 154).

There is also another policy introduced during this sub-period. Government introduced new laws regarding the squatter settlements and illegal occupation of either public or private lands. These laws were providing amnesties to the existing situation. Squatter settlers and invaders were given title deeds or special certificates prior to further title deeds. There was a distinct feature of these new laws when compared with the previous amnesties. The new laws did not only legalize the squatter settlements but also gave squatter residents rights to acquire apartment flats after redevelopment of their lands. A new type of urban planning called "rehabilitation development planning" specific to squatter areas was also introduced during this period. The aim was to regenerate squatter settlements and hence to construct apartment blocks onto the current parcels. A decade later

owners of squatters enjoyed receiving several apartment flats in return for their squatters through the redevelopment process. This policy was very much related to the drastic change in income distribution. According to us with the amnesties the state attempted to launch policies to compensate the reduction of wages of urban poor by providing them urban rents.

The general features of the new economic system and developments regarding its implementation between 1980 and 1988 are introduced above. It is useful to focus on its outcomes by exploring some economic figures. First of all it is possible to say that the economic stagnation of late 1970s turned into a growth phase between 1980 and 1988 since the annual economic growth rate was 5% during that period (Boratav 2003, 159). Certain progress was also achieved in export activities. The volume of exports increased from 2.275 million dollars in 1979 to 11.662 million dollars in 1988 (Boratav 2003, 159). The share of exports in GDP rose from 5.5% in 1980 to 16.5% in 1988 (Altıok 1998, 254). The same trends can also be observed in the figures on production in general and in manufacturing. The capacity utilization ratio in manufacturing rose from 63-65% in 1981 to 74% in 1988 (Altıok 1998, 253). The share of gross capital accumulation in gross domestic product rose from 21% to 26% during same years (Boratav 2003, 159).

The above figures indicate that Turkish economy achieved the goals of the new program in terms of increasing levels of exports and accumulation. However this progress was not free of problems. The major problem lay in the maintenance of the dependent structure of the economy in Turkey. It could be asserted that the dependent structure of Turkish economy emerged within the previous periods was sustained after 1980. In other words dependency upon imports and foreign loans was sustained within the new CAR. Imports increased from 4.834 million dollars in 1979 to 13.545 million dollars in 1988 (Boratav 2003, 159). When import figures are considered in relation to export figures it is obvious that foreign trade deficits remained. The share of foreign loans in goods and services exported rose from 20.7% in 1979 to 37.1% in 1988 (Boratav 2003, 159). As the external dependency of the economy did not change it is obvious that economic growth in this period was achieved again through increased foreign loans.

It is also possible to assert that the progress between 1980 and 1988 was not due to a structural improvement. Progress was contingent upon some temporary favorable conditions introduced by the state. The rise of exports, for instance, was related to enormous amount of incentives given and to low level of wages rather than a technological improvement in manufacturing (Boratav 2003, 159-160; Altıok 1998, 254). The increase of production was related to extensive utilization of existing surplus capacity rather than new and additional investments in manufacturing (Altıok 1998, 253).

#### 3.2.2.2. Instability under Hegemony of Financial Capital

1989 was another essential year in recent past of Turkish economy. The dynamics of new economic system have changed by the introduction of some new policies and laws. It is possible to mention two essential reasons for that. First of all, government was forced to stop policies leading to decline in real wages (Boratav 2003, 175). The essential income losses of the working class between 1980 and 1988 mobilized social classes especially the working class. Demonstration and protests of working class against government were not only increased in 1989 but also received great support from most fractions of society. The mobilization of the working class was coupled with the massive defeat of the governing party in local elections (Boratav 2003, 175). The elections held in 1989 brought Social Democrat People's Party a victory as they won majority of local council seats. These two incidents pushed the government to respond to the demands of popular masses. Workers engaged in public sector received 142 % wage increase, which was just a bit more than the civil servants had received. Private sector followed the government by providing essential wage increases. The improvements in wages were not limited only to working class. Government also restarted the support policies and subsidies on agricultural products (Boratav 2003, 176). The per capita wage index in manufacturing rose from 0.0144 in 1988 to 0.0226 in 1990 (Altıok 1998, 268). So the year 1989 had been the time for working class to take the revenge of 1980 defeat.

The second event, which makes 1989 a turning point, was the introduction of a new policy regarding financial sector. A new decision (No. 32), which was taken in 1989, provided full freedom to the capital flows from foreign financial markets into Turkey (Altıok 2002, 103). In other words, local currency in Turkey was made

convertible in that year (Boratav 2003, 179). From that time forward it became possible to transfer financial capital in and out. So after 1989 Turkey became a financial market for international capital for short-term investments. It should also be noted that this policy provided the opportunity to national capitalists to invest locally accumulated capital abroad.

These two changes had remarkable impacts on the economic system in Turkey after 1989. For this reason the period started with 1989 is accepted as a sub-period and labeled as “hegemony of financial capital” (Boratav 2003). The Turkish economy faced three serious financial crises after 1989. The reasons behind these crises are generally explained as the short-term capital in and outflows searching to gain from the difference between interest rates and foreign currency exchange rates (Boratav 2003, 180-182). The type of profits derived from simultaneous buying and selling of negotiable called “arbitrage profits” (Boratav 2003, 198). If high interest rates couple with low exchange rates in an economy the level of arbitrage profits increases. The annual rate of arbitrage profits for foreign exchange has been 23% between 1989 and 2002 in Turkey. There were only two years during which arbitrage profits went negative between 1989 and 2002 (Boratav 2003, 198). This profitable room ended up in massive capital in and outflows for short-term purposes. However these rapid movements of financial capital triggered several financial crises. For instance the ratio of foreign capital outflow over national income was -11.9% in 1994, -4% in 1998 and -15.1% in 2002 (Boratav 2003, 180). As each crisis leads the economy to consume more foreign loans to reduce impacts of crisis, the economy has become more and more dependent to the external forces and condition. This also means that under such circumstances deficits of the economy increases enormously. It should be noted here that the total foreign loans of Turkey rose from 41.7 billion dollars in 1989 to 133.2 billion dollars in early 2003 (Boratav 2003, 183). Although the state aimed to encourage foreign capital to be invested into productive sectors the reality was just the opposite. As capital movements focused on short-term speculative investments, the economic system gained an instable character.

Instable character of the economic system affected the productive sectors of the economy in a negative way. In other words not only foreign capitalists but also national capitalists also hesitated to invest into the productive sectors due to the

risky atmosphere of instability (Boratav 2003, 189). First of all, it should be mentioned that annual economic growth rate was 3.2% between 1989 and 2002 whereas it was 5% between 1980 and 1988. This was the lowest economic growth rate in Turkey since 1923 except the war years (Boratav 2003, 185). In addition to the low level of economic growth, the accumulation ratio also fell in that period. While the accumulation ratio was 26% in 1988 it fell to 16.4% in 2002. The share of manufacturing, agricultural and mining investments in GDP appeared to be less than 4% in 2002 (Boratav 2003, 185). The reason behind this awkward picture was in no doubt that the instability of the economic system as well as the attraction of rising profits in financial markets. Boratav (2003, 189) argues that the economic instability increased the uncertainties, which discourage capitalists from investing into productive sectors. This constituted one of the main reasons of falling rate of capital accumulation in manufacturing sector.

The other reason is related to the revised wage policy of the state. It was discussed earlier that lower labour costs constituted the competitive advantage of industry serving exports markets. However the wage increases in 1989 increased the share of wages in value added in manufacturing (Altıok 1998, 262-263). In other words increased labour costs reduced the rate of profits and increased production costs after 1989. It should also be noted here that Turkish industrial sector could not improve technologically to have enough productivity to compete in international markets. As a result of these the share of exports in GDP fell from 16.5% in 1988 to 9% in 1993 (Altıok 1998, 254). This also coupled with the falling rate of industrial production.

There is also another impact of financial liberalization on industrial capital in Turkey after 1989. Altıok (2002, 106) states that industrial capitalists preferred to establish financial companies in order to gain arbitrage profits during the liberalization process. According to him, industrial capitalists borrowed foreign exchange from international markets, converted it into local currency and invested it into financial instruments through these companies. In other words after 1989 some portion of industrial capital flowed into financial investments rather than manufacturing. According to research conducted by Chamber of Industry of Istanbul on the largest 500 industrial companies revealed that the ratio of their non-industrial revenues over industrial revenues rose from 17,5% in 1982 to 50%

in 1995 and finally to 219% in 1999 (Cited in Altıok 2002, 114). This trend continued between 1999 and 2002 (Boratav 2003, 197).

As seen from the explanations given above the main productive sector of Turkish economy namely manufacturing industry has been in negative conditions to carry out production within the sector. This is very much related to the structural limitations of industry as well as the instability of economic system during that period. Three important financial crises not only discouraged capitalists from investing into productive but risky sectors but also increased their tendencies to switch capital into more profitable and safe fields. Altıok (1998, 262) asserts that net investments in manufacturing declined between 1980 and 1996. He also notes that this decline resulted in a surplus capital switched into other outlets rather than manufacturing.

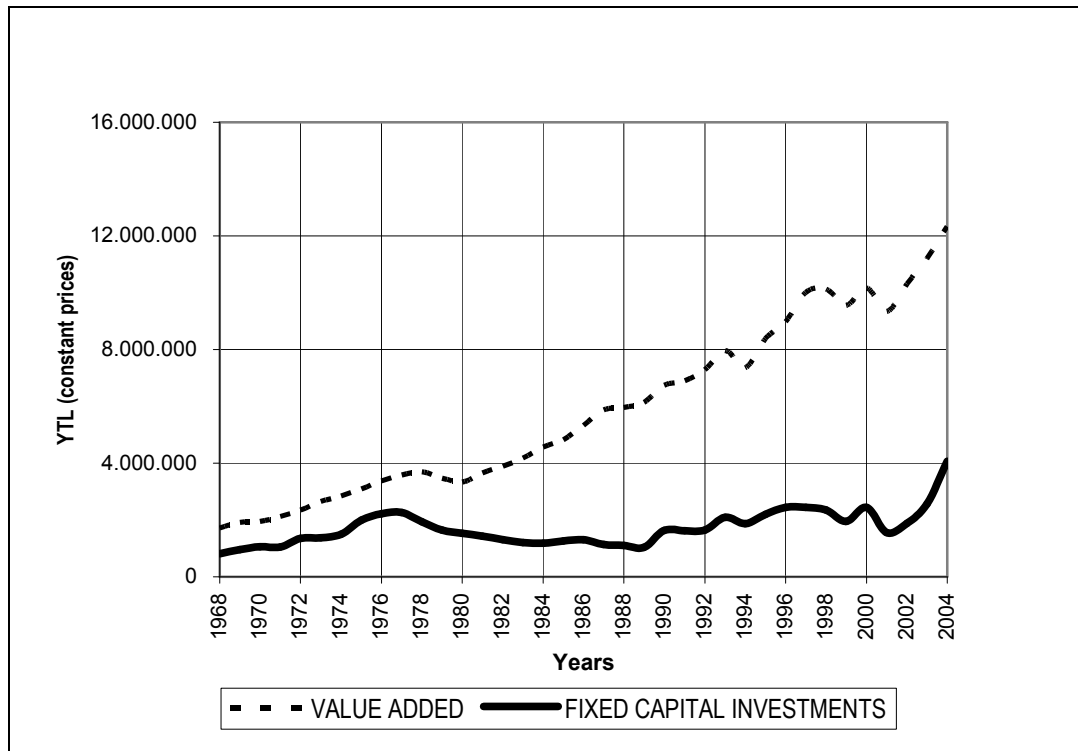
These claims about manufacturing industry seem important and hence deserve some attention. Manufacturing industry has been the main productive sector of Turkish economy especially after 1950 when ISI strategies started to be implemented. If the theoretical concepts that were discussed in the previous chapter are used it is possible to state that manufacturing industry has constituted the primary circuit of capital accumulation in Turkey since 1950s. However some authors claimed that primary circuit of capital accumulation in Turkey began to lose its profitable character especially after 1989. This theoretically means that economic conditions either forced industrial capitalists to find alternative fields for new investments or made them to content with these lower levels of profits. We will examine these claims about manufacturing industry by using some secondary data and figures in the following section.

#### 3.2.2.3. Capital Investments under Two Different Capital Accumulation Regimes

The discussion in this part starts with the relationship between the amounts of value added and fixed capital investments in manufacturing. The chart given below displays the change of both value-added and fixed capital investments in monetary terms starting from 1968 till 2004. As it is clear value added in manufacturing, which can generally be defined as the difference between value of outputs and value of inputs, has an increasing trend since 1968. Although this



trend seems to have an instable character during the period between 1998 and 2001 it again gained a rapid increasing pattern after 2001.

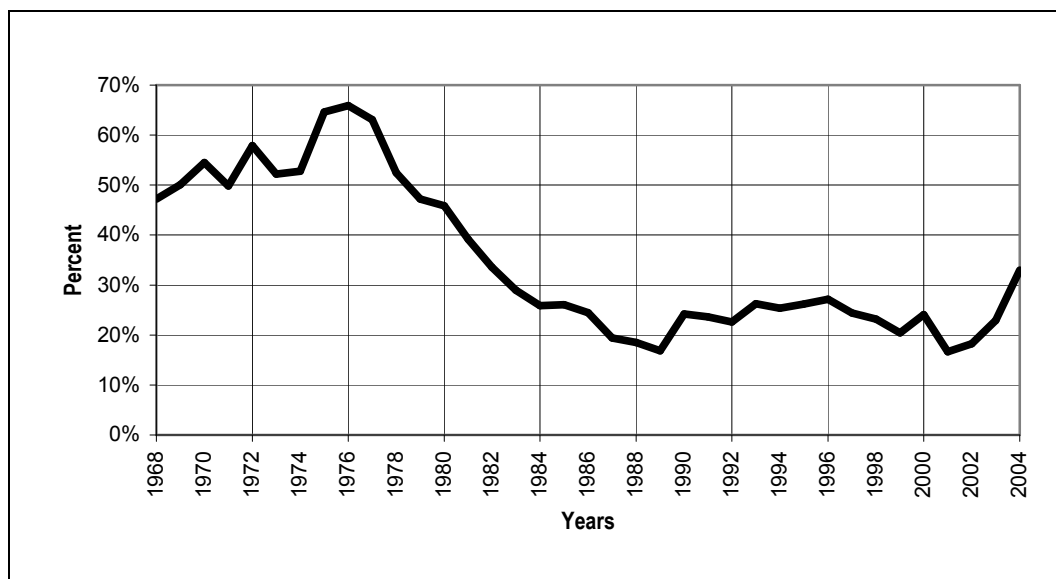


**Chart 3.1: Amount of Fixed Capital Investments and Value Added in Manufacturing** (Source: DPT)

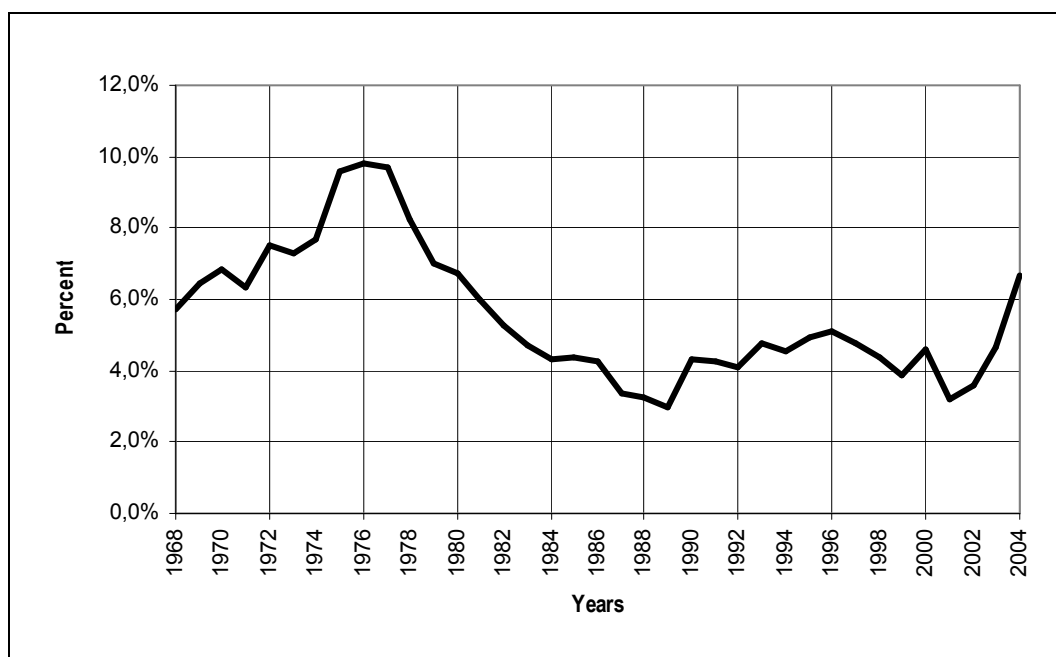
Nevertheless numbers of fixed capital investments in manufacturing show a different trend than the amount of value added. There seems to be an increasing pattern of fixed capital investments between 1968 and 1977. It should be mentioned here that 1977 was the year when ISI faced the crisis. So it is obvious that fixed capital investments started to decline with the crisis. This pattern continued till 1989. Capital investments started to increase after that year till 2000. The increasing pattern during 1990s was not a rapid one. The highest amount of capital investments done during 1980s and 1990s hardly exceeds the amount of late 1970s. However this trend seems to have changed after 2000. After a slight

decrease in 2001 fixed capital investments in manufacturing started to increase rapidly.

After having analyzed the trends, which were given in the chart, another point should be mentioned here. It is the gap between the amount of value added and capital investments. There always existed a gap between these two figures. However this gap enlarged steadily after 1980. In other words the gap between value added and capital investments remained almost constant during ISI era whereas it enlarged enormously during the period at which export-oriented growth model was implemented. If we assume the value added figures as the indicators of profit levels and figures on fixed capital investments as the indicators of new investments within the sector it could be asserted that although the level of profits in the primary circuit increased the level of new and additional investments in primary circuit remained almost constant. This increased the gap between the amount of profits and the amount of new investments. Besides these, if the gap between these two figures is assumed as indicators of existence of a surplus capital theoretically it can be stated that most of the surplus value or capital accumulated within the primary circuit namely manufacturing industry has not been invested into that sector during 1980s and 1990s in Turkey. Chart 3.2 and chart 3.3 clearly demonstrate these statements.

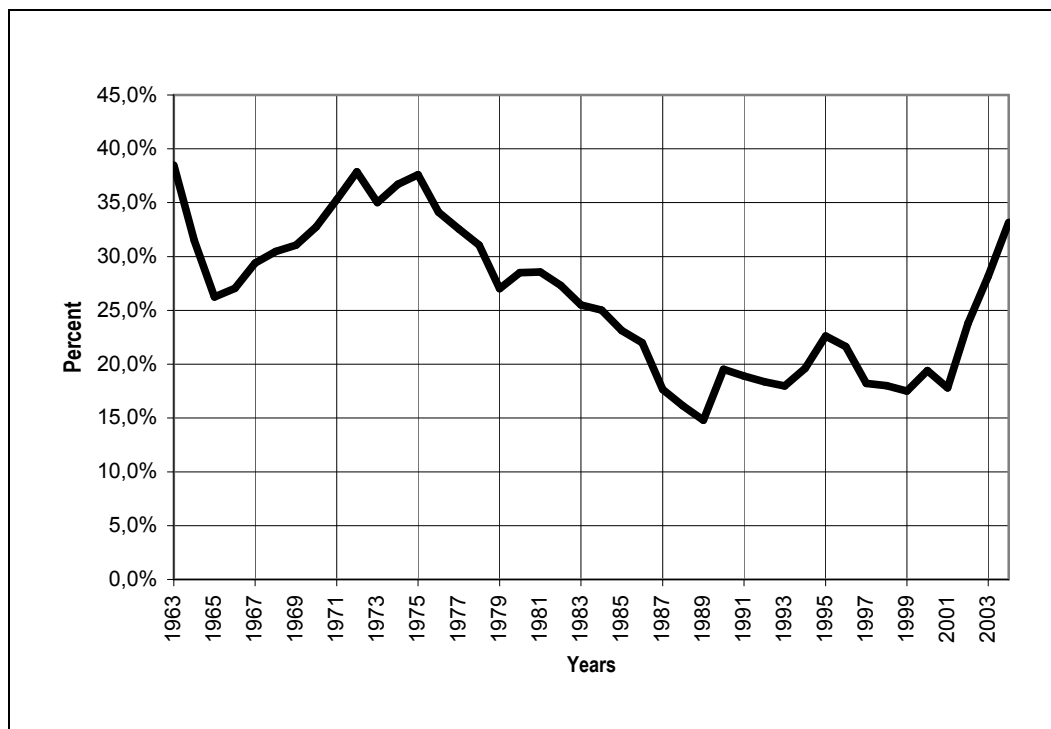


**Chart 3.2: Percentage of Fixed Capital Investments in Value Added - Manufacturing** (Source: DPT)



**Chart 3.3: Percentage of Fixed Capital Investments in Gross Domestic Product - Manufacturing** (Source: DPT)

As seen in the charts, the percentage of capital investments in both value added and GDP in manufacturing industry has a declining trend since 1978. The steady decline trend which started with the crisis of ISI in 1978, continued steadily till 1990. In spite of this increasing trend after 1990 the percentages of capital investments in value added and GDP in late 1960s and 1970s have never been reached again after 1980. In other words, more than 60% of value added in manufacturing which is nearly 10% of GDP turned back to the sector as capital investments between 1974 and 1977 whereas these amounts hardly exceeded 30% and 6% respectively after 1980. So it should be noted that the surplus capital accumulated in manufacturing which is the primary circuit of capital accumulation hardly turned back to the sector in Turkey between 1980 and 2000. There seems to be a change in this trend after 2000 as percentages of fixed investments over both value added and GDP started to increase rapidly in the new millennium.



**Chart 3.4: Share of Manufacturing Industry in Total Fixed Capital Investments** (Source: DPT)

The final chart that will be discussed in this section indicates the percentage share of manufacturing industry in total fixed investments by both public and private sectors. Values displayed on chart 3.4 belong to the period between 1963 and 2004. The long decline trend of the share of manufacturing industry regarding capital investments is clearly obvious in the chart. Capital investments done in manufacturing industry began to fall in 1975 and continued falling till 1989 despite of one or two years exception. The share of fixed capital investments in manufacturing industry was 38% in 1975 whereas this amount decreased to 15% in 1989. The figure for 1989 is the lowest level occurred between 1963 and 2004.

The share of manufacturing in total fixed investments started to increase after 1989 and reached its peak (23%) in 1995. It started to decrease again after 1995 and this trend of decline continued in the following 6 years. According to the chart above, 2001 seems to be critical milestone for manufacturing industry. The share of sector in fixed investments entered to a rapid growth phase since that year. The share of sector almost doubled (17.8% in 2001 and 33.2% in 2004) in 3 years between 2001 and 2004.

Consequently it is possible to distinguish three different periods after 1980 within which the share of manufacturing industry in total fixed investments decreased, remained constant and increased respectively. The first period, which is nearly a decade (1980-1989), is the period of decline through which the share of manufacturing fell from 28.5% to 14.8%. There occurred an up and down phase in second period which started at 1990 and ended at 2001. At the end of the period the share of manufacturing industry in total fixed investments remained almost same. A rapid growth occurred through the final period that is the three years after 2001.

All in all, it should be stated that manufacturing industry, as the primary circuit of capital accumulation in Turkish economy, seems to have lost its attractiveness as a profitable field for investments after 1980. Net investments in manufacturing industry declined with the implementation of new CAR in 1980. The reasons for this were discussed as structural limitations of manufacturing industry which originated from ISI era and macro-economic instability occurred intensively in 1990s. Under these circumstances surplus capital accumulated within this sector seems switched into some other sectors since the gap between value added and

capital investments in manufacturing enlarged enormously during the mentioned period. If this is accepted then the sectors or fields of economy into which this surplus capital is switched should be investigated. Theoretically in such a case secondary circuit of capital accumulation, which is the production of built environment, is expected to be the channel into which surplus capital is switched. In order to see if there are any clues or evidences for this claim we will briefly study the urban process in Turkey starting from 1950 in the following section.

### 3.3. THE SPATIAL STRUCTURE OF TURKEY IN THE RECENT PAST

1950 is also known as the year after which rapid urbanization in Turkey has started. Demographic structure of the country has undergone crucial changes and the whole spatial picture has changed since then. Population in urban areas started to increase enormously and some urban centers like İstanbul and Ankara started to become the main cradles of the country's population. Figures and data on demographic issues indicate this situation clearly. Percentage of urban population in total population remained almost same between 1927 and 1950. There was a slight increase in percentage of urban population between these years as such from 24% to 25%. Urban population in this period increased nearly 85.000 new inhabitants annually which were mainly because of natural population increase. However these rates and numbers have changed after 1950.

**Table 3.1: Urban and Rural Population in Turkey**

Years	Urban Population	Rural Population	Percentage of Urban Population	Percentage of Rural Population
<b>1927</b>	3.305.879	10.342.391	24,22	75,78
<b>1950</b>	5.244.337	15.702.851	25,04	74,96
<b>1960</b>	8.859.731	18.895.089	31,92	68,08
<b>1970</b>	13.691.101	21.914.075	38,45	61,55
<b>1980</b>	19.645.007	25.091.950	43,91	56,09
<b>1990</b>	33.326.351	23.146.684	59,01	40,99
<b>2000</b>	44.006.274	23.797.653	64,90	35,10

Source: TÜİK<sup>1</sup> (2000a)

<sup>1</sup> State Institute of Statistics was reorganized under the name of Turkish Statistical Institute (TÜİK) by enactment of Turkish Statistics Law (No. 5429) at 10.11.2005. Hereafter TÜİK will be used to refer to both State Institute of Statistics and Turkish Statistical Institute.

According to Table 3.1 rate of urban population in total population rose from 25% in 1950 to 44% in 1980. The annual amount of new inhabitants in urban areas was 480.000 in this period. The increase of urban population continued after 1980 as well. Percentage of urban population in total population reached nearly 65% in 2000. This rapid increase of urban population after 1950 is partly related to the natural population increase but mainly related to the migration from rural to urban areas.

### **3.3.1. The Urban Process under Import-Substituting: Self-Solutions and Petty Entrepreneurialism**

#### **3.3.1.1. Population Mobility**

The processes of rapid urbanization and industrialization by import substitution seem to have started in tandem. This overlapping of both processes after 1950s in Turkey is not coincidental. As the state policies were oriented towards achieving economic growth via industrialization, existing limited resources were allocated in a way to support merely the industrial sector located in urban areas. In other words the aim of economic policies and the state's activities was to support and protect the local industrial production by providing favorable conditions. Industrial sector as the privileged sector of economy received most of the state's resources. Under these circumstances rural inhabitants faced serious levels of unemployment and were received low incomes. Unemployment and low incomes constituted the famous "pushing factors" forcing rural inhabitants to migrate to urban areas. Percentage of population working in agriculture fell from 77,4% in 1955 to 66,1% in 1970, to 57,9% in 1980, to 52,1% in 1990 and to 47,8% in 2000 and that of in manufacturing industry rose from 6% in 1955 to 11% in 1980 and to 12.6% in 2000 (TÜİK 2003a).

For another indicator of the above-mentioned situation Table 3.2 should be examined. The share of fixed investments in agriculture fell from 20.7% in 1965 to 7.9% in 1980 while the share of fixed investments in manufacturing rose from 10.9% to 26.3 within the same years. Energy and transport sectors, which are crucial to support industrialization, also received investments from the public sector during ISI period. The total share of fixed investments in these three

sectors rose from 42.5% in 1965 to 58.2% in 1970, 64.2% in 1975 and to 68.4% in 1980.

**Table 3.2: Gross Fixed Capital Investments of Public Sector**

Years	Agriculture	Manufacturing	Energy	Transport
1965	% 20.7	% 10.9	% 11.3	% 20.3
1970	% 13.5	% 19.8	% 17.2	% 21.1
1975	% 9.2	% 27.2	% 12.3	% 24.7
1980	% 7.9	% 26.3	% 21.3	% 20.8

Source: DPT

As a result of the state's policy favoring industrial sector at the expense of agricultural production rural inhabitants began flooding into urban areas after 1950 in Turkey. Since then urban areas underwent social, economic and cultural transformations due to the huge migration they faced. These transformations constituted the main features of urbanization process in Turkey.

#### 3.3.1.2. Legitimization of the Real Situation

The major spatial outcome of migration to urban areas emerged as housing problem. Low income groups mainly the new comers constituted a huge demand for low income housing after mid 1950s in Turkey. However their housing need was mainly satisfied by illegal and irregular type of housing rather than formal types. Squatters began mushrooming at the outskirts of most of the primary cities in Turkey. As squatters constitute the main type of low income housing they became almost one of the main features and elements of Turkish cities in a very short period of time. The statistics reveals that "in the first half of 1960s 59% of the population in Ankara, 45% in Istanbul and 33% in İzmir lived in irregular settlements" (Buğra 1998, 307). The same figures appeared to be 55% in Ankara, 70% in Istanbul and 50% in İzmir in 1980s (Buğra 1998, 307). These figures indicate that 15-20 years after the urbanization process accelerated in Turkey one of the every two households were living in a squatter housing.



The reasons behind the massive expansion of illegal housing were mainly related to the state's attitudes concerning the field of housing especially low income housing during 1960s and 1970s. Balamir (2002, 158-159) emphasizes the incapability of local and central authorities of guiding and providing housing developments due to the scarcity of resources. Buğra (1998, 307) stresses the absence of a formal policy on low income housing as the main reason behind the expansion of squatter housing. To make the picture clearer it is enough to mention the state's expenditures on housing sector between 1960 and 1980. Percentages of public sector's fixed investments in housing were 3% in 1965, 4.5% in 1970, 2.6% in 1975 and 2.4% in 1980 (DPT). These figures are important to show how shallow the state's intervention or inclusion into housing sector was. According to Buğra (1998, 308) the state played limited roles on housing till the early 1980s. For her it is possible to show the state's roles on housing within two categories. First of all, the main role of the state was to provide housing to its employees working mainly in State Economic Enterprises. Secondly, the state provided subsidized credits by some state's institutions. However instead of solving the housing problem of low income ones, this policy contributed mostly to the construction of housing for middle income groups (Buğra 1998, 308). So the incapability of the state as well as its unwillingness to provide low income housing ended up with the massive expansion of illegal and irregular squatter settlements.

Despite its inactivity regarding low income housing the state showed a generous tolerance to squatter settlements. Instead of demolishing the unauthorized housing units and areas the state responded to the situation by several lawful amnesties passed through the parliament in order to give a legal and regular status to squatters (Buğra 1998, 310). Three important amnesties regarding squatter settlements between the mid 1960s and the mid 1970s should be mentioned here. The ongoing process of amnesties starting from 1960s had major impacts on illegal house building and urban development in Turkey. Commercialization of squatters as a result of their regularization will be stressed here.

Işık (1996, 790-792) distinguishes the development process of squatters into two different phases to note their commercialization. For him, the first phase which he calls as "the first generation of squatters" includes the construction of squatters on

public lands occupied by the owners-builders. In this respect first generation of squatters directly and mostly served to satisfy the housing need of rural immigrants and constructed due to benefit from their use values. However the situation started to change during 1970s. Işık (1996, 792) notes that squatters constructed after the early 1970s differed from the ones constructed during the first phase. This differentiation can be expressed as a passage from use value to exchange value. Squatters were started to be constructed to obtain exchange values either by letting or selling by the mid 1970s. The increase of the amount of tenant-occupiers within squatter settlements is an indicator of this commercialization process (Buğra 1998, 311). A research conducted by State Planning Organization in 1991 shows that among all squatter occupiers, the percentage of tenant-occupiers is 32.67% in Istanbul, 28.50% in Ankara, 27.70% in İzmir and 24.3% for the country as a whole (cited in Buğra 1998, 311).

The main dynamic behind the commercialization of squatters was the transformation of ways of land acquisition (Işık 1996, 792). While first generation of squatters were built on public lands without paying for the land second generation of squatters found another ground. Owners of the agricultural lands at the outskirts of cities began dividing their lands into small parcels and selling them to squatter developers (Işık 1996, 792). So starting with the early 1970s squatter settlements built on public lands without any kind of title deeds were coupled with squatters built on private lands due to a shared ownership right. The research mentioned-above also shows that among all squatter owners, percentage of owners purchased the land from a person is 56.22% in Istanbul, 51.58% in Ankara and 47.58% in İzmir in 1991 (cited in Buğra 1998, 311). These figures show the commercial potential that can be attributed to squatters in Turkey.

Balamir (1975, 1999 and 2002) conceptualizes three different types of property relations explaining both legal and illegal dimensions of urban development in Turkey. Two types of these property relations are specifically on the construction and transformation of squatter settlements. Balamir (1999, 337: 2002, 159) defines the first type of property relations as “process of appropriation” which refers to the first generation of squatters. Appropriation is the process through which mostly the vacant public lands were invaded for instant occupation. Whenever the suitable land to locate is found the squatter housing is constructed

immediately as the second step (Balamir 2002, 159). As a result of the commercialization of squatters access to public lands for direct appropriation became difficult as some local actors and intermediaries like land mafia took over the control of these lands (Balamir 1999, 337).

The second type of property relations observed within the development of squatters is defined as “apportionment” (Balamir 2002, 162; Balamir 1999, 338). This is a type of shared ownership which includes the subdivision and sales of mainly cadastral and agricultural lands to squatter builders. Initially this process was based on a mutual trust among people involved in the process. The reason was the lack of a legal mechanism or possibility to register these property sales to Title offices. For this reason the initial developments through apportionment carried out by “mutual private agreements to physically subdivide land into smaller sizes in order to start building independently” (Balamir 2002, 162).

When compared in legal terms appropriation was wholly an illegal process while apportionment included some lawful steps. Starting from the invasion of public lands to the construction of squatter all the steps taken within appropriation was illegal and irregular (Balamir 1999, 337). However appropriation and apportionment of land as well as purchasing a share of those lands were legal steps in process of apportionment. The construction activity itself remained illegal in this process (Balamir 1999, 338). Both of these illegal types of property relations gained regular or semi-legal status in time under the mercy of the state in Turkey. Amnesties turned squatter owners into legal occupiers as they were provided title deeds or certificates prior to title deeds. In addition a decision of the high court removed uncertainties in the process of apportionment in 1975 by confirming the disposal rights of shareholders on specific locations of shared lands (Balamir 2002, 164).

The urbanization experience in Turkey is not limited to illegal and irregular settlements. Within the acceleration of urbanization regular or formal areas within cities underwent important changes. A peculiar type of property relations which dates back to mid 1950s dominated the production of regular housing areas (Balamir 1975, 298). This type of property relations also emerged as an informal but innovative way of housing production. Balamir (1999, 339; 2002, 170) conceptualizes this type as “process of appurtenance”. Appurtenance is a model

of cooperation through which multi-unit residential blocks are constructed and shared. Cooperation under this model includes the involvements of land-owners, builders and house buyers. The model starts with the agreement between the land-owner and the builder. Land-owner permits builders to carry on a multi-unit apartment block on his land in return for several residential units of that building. This sort of an agreement allows builders to access a land without paying for that land prior to the construction. This is essential in eliminating the cost of land and in reducing the amount of capital required to start the business. After having this agreement done builders start to sell some of their flats due to the agreement. By selling all or some of his flats prior to the construction builder receives payments from further occupiers of the flats. These payments not only constitute his profits but also cover the cost of construction.

As it is obvious process of appurtenance brings land-owners, builders and house buyers together before the construction activity starts. Each part contributes to the process. While land-owners are providing access to their land future occupiers of the flats are providing the capital required for construction. The organization of the whole process as well as the construction activity is left to the builder. Starting from the mid 1950s process of appurtenance has been the major type of regular and legal housing production in Turkey. In other words the planned parts of cities in Turkey have been developed and produced through the property relations of appurtenance. In order to see to what extent this process dominated the housing production in Turkey it is useful to check the amount of residential apartment blocks in total stock. Table 3.3 includes the annual amounts of construction permits supplied by local councils to residential buildings. The share of apartment blocks in total residential buildings rose from 7.7% in 1955 to 35.4% in 1980 and finally to 43% in 2000. Nearly half of the all residential buildings were constituted by apartment blocks in 2000. The increase of share of apartments shows the domination of appurtenance starting from the mid 1950s. When the fact that each apartment block includes several independent residential units is considered its domination within the whole amount of dwelling units would be much more clear and large.

**Table 3.3: Numbers and Shares of Houses and Apartments in Total Residences** (According to Construction Permits)

Years	Amount Of Houses	Amount Of Apartments	Amount Of Residential Buildings	Share of Houses	Share of Apartment Blocks
1955	39,380	3,275	42,655	92.3%	7.7%
1960	32,595	3,294	35,889	90.8%	9.2%
1965	35,363	6,146	41,509	85.2%	14.8%
1970	40,555	15,558	56,113	72.3%	27.7%
1975	40,702	18,432	59,134	68.8%	31.2%
1980	39,948	21,901	61,849	64.6%	35.4%
1985	34,157	27,636	61,793	55.3%	44.7%
1990	69,291	40,107	109,398	63.3%	36.7%
1995	73,525	53,772	127,297	57.8%	42.2%
2000	40,074	30,218	70,292	57.0%	43.0%

Source 1: TÜİK (1993), Source 2: TÜİK (2003b)

It should be noted here that appurtenance developed as an informal way of tenure system. First cases were limited to closely related individuals and relatives due to the mutual trust between them. However the rapid expansion of this tenure system throughout the country and engagement of large number of households into this system created a political consensus on this system. The state adopted a law namely Flat Ownership Law in 1966 in order to secure the rights gained through this tenure system legally. After 1966 the freehold tenure in independent parts of buildings became a legal and formal way of house ownership (Balamir 2002, 171).

We need to discuss the reasons behind the emergence and rapid expansion of appurtenance as a tenure system in Turkey. Balamir (1999, 339) stresses the limitations on production and supply of urban land as one of the reasons. For him scarcity of public resources on infrastructure limited the supply of adequate urban lands and this caused the massive increase of land prices in urban areas. For these reasons intensive investments on small plots of land in terms of high-rise apartment blocks appeared to be an effective way of creating large amount of dwelling units on relatively small amounts of land.

Işık (1996, 794-795) interprets this process as well. He stresses the scale of developers operated through appurtenance. He claims that the dominant group of

capitalists, who took part in the production of urban built environment before 1980 in Turkey, was petty developers. The reason was that the industrial capitalists or corporate capitalists at that time were enjoying high rates of profits within the industrial sector and they did not need to operate within housing sector (Işık 1996, 795). In other words due to the favorable and profitable conditions in primary circuit of capital accumulation, the secondary circuit activities were left to petty developers before 1980 in Turkey. Appurtenance then has been the effective model under which petty developers working with limited amounts of capital could operate. Balamir (1975, 2002) also mentions this point. According to him (1975, 298), process of appurtenance developed as a response to the lack of capital and investments in the production of urban built environment. He (2002, 172) emphasizes that “the process of appurtenance in Turkey generates new capital rather than consuming existing investment resources or capital transferred from another sector of the economy”. So appurtenance as a type of tenure system has been specific to Turkey to overcome the problems occurred as a result of lack of capital and investment resources.

As a concluding remark it can be stated that three different forms of property relations emerged and developed in Turkey to satisfy the production of urban built environment during the period of Import-Substituting Industrialization. All of the three forms were initiated as an informal solution and evolved into legal, regular or at least semi-legal forms. The main dynamic behind these three forms was the scarcity of capital investments allocated to the production of urban built environment. State preferred to use its resources to support the industrial sector rather than spending it for building an urban fabric. Corporate capital groups did not need to invest into urban areas since they were satisfied with the levels of profits in the primary circuit. Under these circumstances urban dwellers, land owners and petty developers came together under different property relations and cooperated. The populist nature and policies of the state both helped and encouraged them during their cooperation. Their innovative solutions owe lots to the state’s mercy and tolerance. That mercy and tolerance legitimized the way they produced urban built environment as formal and regular channels.

### **3.3.2. The Urban Process after Import-Substituting: End of a Division of Labour**

#### **3.3.2.1. Touching the Urban Process: State's Regulations and Interventions**

Urbanization process in Turkey entered into a new phase after 1980. Dynamics and factors determining the urban process has changed since then. On the one hand there occurred essential changes in legal and institutional aspects of urban development and planning system and in housing policy. On the other hand volume of the production of urban built environment started to increase rapidly with the beginning of the early 1980s. In this section these changes will be discussed. Before proceeding through the discussion it should be noted that the state has played important roles to enable and facilitate these changes. In other words, the state started to involve actively in urban processes during post-1980 period when compared to the previous period.

State intervened into the urban processes especially into the housing sector by means of introducing new policies. The first field of intervention has been the rehabilitation and redevelopment of illegal squatter settlements. State has changed its attitude towards these areas and their inhabitants. Several amnesties regarding squatters were introduced in 1983, in 1984, in 1986 and finally in 1987 (Işık 1996, 794). The most important one of those were introduced in 1984 under the Law No. 2981. This law not only legalized the illegal buildings but also subjected them to further redevelopment (Işık 1996, 794). A special type of urban planning (literally "Rehabilitation Development Plan") by which squatter areas are transformed into regular settlements was also introduced by that law.

There were two basic principles of the law. First of all freehold tenure both in squatters and on the land they built was legally accepted. Second transformation of squatters to multi-storey apartment blocks via the rights defined by Rehabilitation Development Plans was allowed. In other words the two peculiar types of property relations namely appropriation and apportionment attempted to evolve towards appurtenance which is the third peculiar type of property relations emerged within the previous period in Turkey.

The above-mentioned process enabled the occupiers of squatters to gain from urban rents. Following the redevelopment of squatter areas squatter settlers received several apartment flats in return of their squatters. So a very different dimension has been added to the state's attitude towards squatters during the post 1980 period. This dimension was to let squatter owners to enjoy the potential urban rents attached mainly to their lands rather than enjoying their squatters only as a housing unit. Boratav (2003, 153) interprets this attitude or policy as a compensation for the injustice created within redistributive policies on direct incomes after 1980. So the state that tolerated urban poor occupied public lands between 1960 and 1980 let them to receive monetary benefits from those lands.

State's intervention into the housing sector was not only limited to the transformation of squatter settlements. State has taken a regulatory role in housing sector by providing necessary conditions to enable the construction of mass housing projects. Two laws regarding housing sector were introduced in 1984 (Türel 1996, 796). The first Law No. 2983 concluded the foundation of a central public institution that is Mass Housing and Investment Administration (MHIA)<sup>2</sup> while the second law namely Mass Housing Law concluded the establishment of Mass Housing Fund to provide finance to mass housing projects (Türel 1996, 796; Buğra 1998, 308). The aim of Mass Housing Law and Fund was to equip the mentioned Administration with important powers and financial instruments (Işık 1991, 249). Several financial sources were determined to feed the Mass Housing Fund as such taxes imposed on locally produced cigarettes and beverages, on fuel oil consumption and obligatory payments collected from travelers visiting abroad (Türel 1996, 796; Işık 1991, 250).

Just after their foundation HDA and the fund has become an important instrument to finance the housing sector in Turkey (Buğra 1998, 308). Fund provided cheap credits not only to contractors, developers and construction firms involved in housing projects but also to individuals and households willing to buy houses. Between 1984 and 1995 95.296 individual credits and 836.975 mass housing credits were supplied through the Mass Housing Fund (Türel 1996, 796). Türel

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<sup>2</sup> Due to some legal changes the name of Mass Housing and Investment Administration is changed. The institution is now named as Housing Development Administration of Turkey. [www.toki.gov.tr](http://www.toki.gov.tr) is the mentioned website. We preferred to use the latest name and abbreviation, which is HDA, of this institution in this study.



(1996, 796) also mentions that within the same period total amount of dwelling units benefited from these credits was 949.079 and out of these 816.091 had been constructed.

Construction cooperatives were the major beneficiaries of the credits supplied through housing fund (Işık 1991, 250). According to the data supplied on the website of Housing Development Administration of Turkey the total amount of dwelling units which were constructed by cooperatives by the help of credits were 936.182. The increase of cooperative housing in total house production became an important outcome of state's intervention into housing sector after 1980. Among the total amount of dwelling units started to be constructed the share of cooperative housing rose from 10.9% between 1975-1980, to 21.1% between 1980-1985 and to 31.2% between 1985-1990 (Işık 1996, 795). This also ended up in an increase in the amount of cooperatives established in the country. 80% of all cooperatives founded between 1941 and 1991 were established during post 1980 period. (Berkman 1995, 148 cited in Buğra 1998, 308).

The enormous increase both in the numbers and floor spaces of cooperative buildings after 1984 is obvious. Annual number of construction permits supplied to cooperatives rose from nearly 9.000 in 1984 to more than 41.500 in 1988. The floor space of buildings received construction permits in those years rose from 5 million m<sup>2</sup> to 20 million m<sup>2</sup> (TÜİK 1993, TÜİK 2003b). However there occurred a decline starting from 1988 in the amount of construction starts by cooperatives. Annual number of construction permits supplied to cooperatives decreased from 41.500 in 1988 to 23.000 in 1991 (TÜİK 1993, TÜİK 2003b). The reason for this is that the administration stopped providing credits in 1988. The lack of strict guidelines for the distribution of funds ended up with unintended uses of these fund resources like for construction of summer houses, etc (Işık 1991, 250). That's why Government preferred to stop providing them for a while and introduced the guidelines of credit supply in 1989 and continued credit provision afterwards (Türel 1996, 797).

In addition to credit supply Mass Housing Administration also involved in housing sector as a developer (Türel 1996, 797). The aim was to construct and provide housing units to low income groups by favorable repayment schemes. The total amount of dwelling units started to be constructed by the administration was

34.233 units between 1984 and 1995 and out of these 28.553 units were completed during the same years (Türel 1996, 797). According to Buğra (1998, 309) the administration involved in this process to construct houses for low income groups since most of the housing credits supplied were used by private firms or cooperatives to construct housing for middle income groups.

Till now we discussed two important incidents, specifically transformation of squatter areas and foundation of Mass Housing Administration and fund as the state's intervention into the production of urban built environment after 1980. However the new policies and developments regarding the production of urban built environment were not only limited to legal and illegal housing. The legal and institutional aspects of the planning and urban development system in Turkey were also changed crucially during the post-1980 period.

The new Urban Development Law (No. 3194) was enacted in 1985. In a general sense it can be said that the new law aimed to transform the structure of planning system from a centralized one to a decentralized one. Local governments were given greater authority for the preparation and implementation of urban development plans. In other words local governments gained autonomy against central government's institutions while giving some planning decisions as well as satisfying the local demands for urban development. In addition central and hierarchical structure of urban planning system was also transformed into a decentralized and fragmented one. Various types of development plans concerning different dimensions of and functions within cities were introduced with the new system.

Besides it should be noted here that the state policies encouraged the investments in tourism sector as well as housing. New laws regarding tourism sector and coasts were also enacted after 1980. These laws aimed at increasing the amount of capital invested into projects serving tourism like hotels, secondary-housing, etc. along the coastal zones (Işık 1996, 799-800).

Consequently it is obvious that the state left its unwillingness to take serious roles in the production of urban built environment during the post-1980 period. In contrast to transfer of planning rights in certain domains, by introducing various policies state's regulatory and interventionist role increased. These policies aimed

not only to encourage and support the actors operating within the production of urban built environment but also to increase the volume of investment in this field. It is possible to conclude that these policies have become effective to achieve the desired goals. The volume of building stock has grown rapidly during post-1980 in Turkey. Hereafter we will focus on the outcomes of the state's policies on the production of urban built environment in terms of the volume of building stock.

### 3.3.2.2. Volume of the Production of Urban Built Environment

Numbers of all types of buildings and dwelling units, which were counted in 1984 and in 2000, are given on Table 3.4. Total number of all types of buildings in Turkey rose from 4.4 million in 1984 to 7.8 million in 2000 with an increase percentage of 78.6%. The rate of increase of dwelling units, which is 128.8%, appears to be much higher than that of buildings. This can be accepted as an indicator of construction of high-rise buildings. In both cases there are enormous increases in numbers of either buildings or dwellings. According to the figures on dwellings it is possible to mention that number of dwellings produced between 1984 and 2000 were higher than total number produced before 1984.

**Table 3.4: Number of All Buildings and Dwellings within Municipal Boundaries**

Provinces	Amount Of Buildings			Amount Of Dwellings		
	Census Year		Percentage Of Change	Census Year		Percentage Of Change
	1984	2000		1984	2000	
Ankara	291,529	384,489	31.9	625,962	1,128,625	80.3
Antalya	82,578	233,802	183.1	120,581	456,371	278.5
Bursa	147,334	270,023	83.3	236,628	640,197	170.5
Denizli	89,905	143,737	59.9	114,020	234,168	105.4
Icel	92,028	206,089	123.9	140,678	440,184	212.9
Istanbul	510,798	869,444	72.1	1,378,115	3,393,077	146.2
Izmir	325,092	522,243	60.0	536,988	1,140,731	112.4
Kocaeli	62,906	140,613	123.5	128,411	325,079	174.2
<b>TURKEY</b>	<b>4,387,971</b>	<b>7,838,675</b>	<b>78.6</b>	<b>7,096,277</b>	<b>16,235,830</b>	<b>128.8</b>

Source: TÜİK (2001)

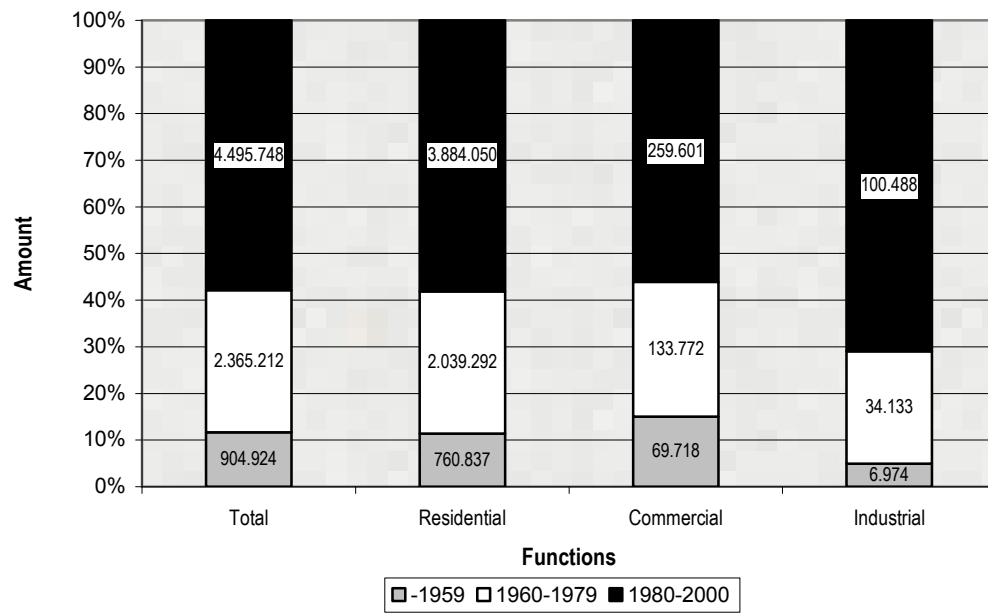
Similar kind of data is also provided on the following table. Table 3.5 includes data on the change of numbers of residential and commercial buildings. The number of residential buildings increased 75% between 1984 and 2000. The increasing trend is also valid in case of commercial buildings. The number of commercial buildings increased 84% in the same period. This shows that the rapidly growing construction activity was not only limited to housing but also includes commercial buildings as well.

**Table 3.5: Residential and Commercial Buildings within Municipal Boundaries**

Provinces	Amount Of Residential Buildings			Amount of Commercial Buildings		
	Census Year		Percentage Of Change	Census Year		Percentage Of Change
	1984	2000		1984	2000	
Ankara	263,626	330,753	25.5%	23,521	39,138	66.4%
Antalya	72,265	195,511	170.5%	8,802	29,877	239.4%
Bursa	127,532	235,605	84.7%	18,430	28,148	52.7%
Denizli	80,267	124,800	55.5%	8,285	15,236	83.9%
Icel	83,244	184,417	121.5%	7,916	18,112	128.8%
Istanbul	455,276	777,416	70.8%	51,127	77,152	50.9%
Izmir	290,730	461,970	58.9%	31,376	50,374	60.5%
Kocaeli	57,969	126,373	118.0%	4,233	11,909	181.3%
<b>TURKEY</b>	<b>3,841,609</b>	<b>6,735,813</b>	<b>75.3%</b>	<b>483,375</b>	<b>889,588</b>	<b>84.0%</b>

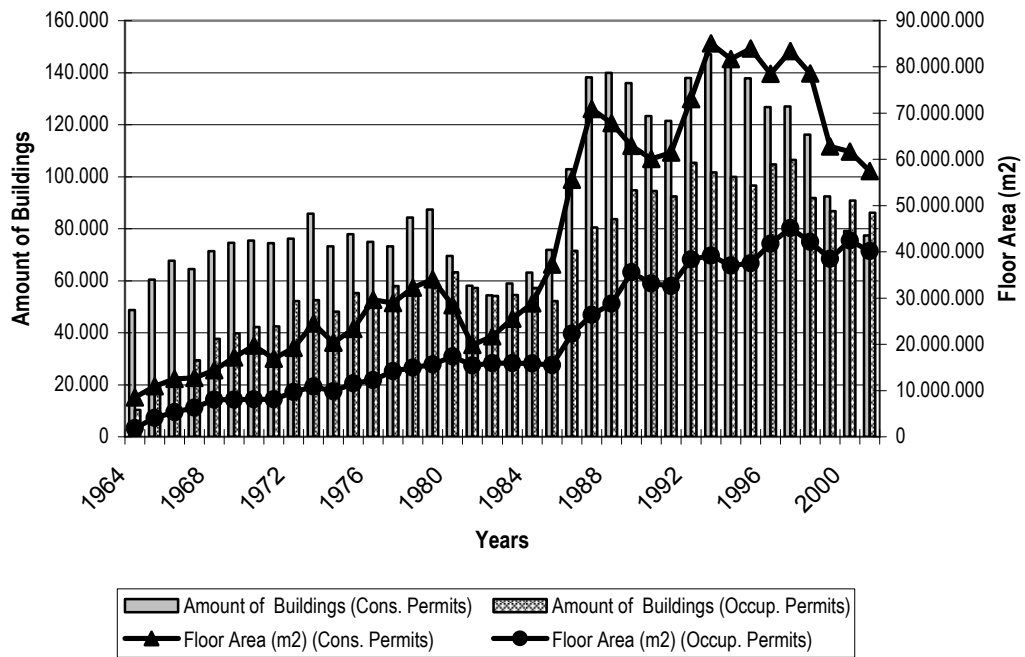
Source: TÜİK (2001)

The chart below includes data on the completion years of buildings by type. Nearly 60% of all buildings existed in 2000 were completed between 1980 and 2000. This is almost same for residential and commercial buildings. Nearly 60% of these buildings were completed after 1980. This amount increases to 70% when industrial buildings are taken into consideration.



**Chart 3.5: Completion Year of Buildings by Function – Turkey** (Source: TÜİK, 2001)

Chart 3.6 includes the numbers of construction and occupancy permits supplied to all type of buildings as well as the floor areas of those buildings between 1964 and 2002. However it should be noted that these figures are about buildings which are constructed legally. In other words figures on illegal building construction are excluded.



**Chart 3.6: Numbers of All Type of New and Completed Buildings** (Sources: TÜİK, 1993; TÜİK, 2003a and TÜİK, 2003b)

According to chart 3.6 there was a general increase in number of buildings constructed between 1964 and 1980. This increase especially in the figures on new starts is followed by a decline during the years of military coup. Starting with 1983 an enormous increase in the number of construction starts and their floor space occurred till 1988. This increasing trend is followed by a decline between 1988 and 1990 mainly due to the cut off in credit supply by Mass Housing Fund. There seems to be another increasing trend between 1991 and 1994 which is again followed by a decline when Turkish economy was suffering from financial crises and instability.

Consequently it is clear that the volume of investments in the secondary circuit of capital accumulation increased enormously after 1980 in Turkey. This increase was not only limited to the housing sector but valid for the whole construction sector. Amounts of commercial and industrial buildings as well as the residential ones were also increased within this period. Işık (1996, 798) defines the post

1980 period as the one during which the corporate capitalists attempted to gain a share in urban rents and hence he notifies that major actor behind the construction of this stock were not merely petty contractors. Tekeli's arguments (1991a, 1991b) support this claim. He emphasizes the division of labour between capitalists and its transformation between two periods of Turkish economic system. According to him (1991a, 168) a division of labour occurred between capitalist during ISI era as such that corporate capitalists who were satisfied with the profits in industrial sectors left the secondary circuit to petty entrepreneurs and capitalists. He (1991b) also notes that this cooperation was finished after 1980 by defining the urban process of post 1980 period as "a transition from petty capitalists to corporate capitalists". According to Türel (1995, 13) large firms, especially the ones which undertook the construction works of housing cooperatives, entered into speculative house building sector after 1984. Buğra (1998, 311) also mentions that the changes after 1980 encouraged large firms to move into the housing sector which was left to small contractors before. She relates this to the role and involvement of the state as a credit and finance supplier. Işık (1991, 250) follows similar lines of argument. He claims that the involvement of large and corporate capital groups in the production of urban built environment is very much related to the state's policies. According to him the state aimed to prepare the necessary grounds for the involvement of large capital into housing sector and hence its policies were designed to attract these groups and large firms in the production of urban built environment.

### **3.4. CONCLUSION**

Two different capital accumulation regimes dominated the economic system consecutively in Turkey starting in late 1950s. Import-Substituting Industrialization strategies implemented between 1960 and 1980 were replaced with strategies of Export-Oriented Growth Model after 1980. While the economy gained an inward-oriented structure under ISI, it was opened to international markets via exporting during the second period. Each CAR had its specific logic, which shaped the major productive sector of Turkish economy, namely manufacturing industry in different ways.

As ISI was based on substitution of previously imported goods for local production of those goods manufacturing industry received essential support from the state.

Various protection policies on imports and customs duties were coupled with generous redistribution policies in order to constitute a broad and profitable domestic market. The successful implementation of these policies created a profitable environment for production. Under such circumstances, industrial capitalists not only gained high profits but also benefited from protection rents, which arises from the exploitation of domestic market free from international competition. Industrial capitalists did not face serious problems to carry out further investments during ISI period. The average ratio of fixed capital investments over value added in manufacturing had been 55% between 1968 and 1980. In other words more than half of the capital accumulated in the primary circuit was reinvested in that circuit.

State played important roles during the ISI period. First of all, the state's activity focused on the constitution of the domestic market. This goal was performed by introduction of protection policies as well as comprehensive redistribution policies. Redistribution policies also covered the toleration of occupation of public lands by squatters. State let urban poor to solve their housing problem via squatters. The state also intervened into the economy as producer of some inputs in terms of intermediary and capital goods with subvention. Foreign exchange policy was another essential issue performed by the state. State not only obtained foreign exchange from foreign suppliers but also allocated it among actors of economy in accordance with the requirements of CAR.

Turkish economy grew at high rates during ISI period. However this regime ended just after 1977. In other words ISI had an essential crisis between 1977 and 1980, which was solved by adopting a new CAR. The crisis of ISI occurred as a falling rate of profits crisis due to a shortage of foreign currency. The unfavorable external conditions after 1977 closed almost all the channels of foreign exchange flow into Turkey. Due to the lack of foreign exchange capitalists hardly imported inputs and carried out further production. As the material conditions of production got worse profits were squeezed by the continual increase of wages.

The crisis of ISI forced the state to change the existing CAR. The new program which aimed at transforming the inward-oriented structure of the economy to an export-oriented one was introduced in 1980. The economic policies of the new CAR were designed to encourage export of locally produced goods. The major



field of impact of these policies was the reorganization of labour market. Redistribution policies of the previous period were changed completely to reduce domestic market and to reduce production costs via reduced labour costs. Working class and salaried people faced sudden and enormous deterioration of their real wages after 1980. Foreign exchange policy also underwent a change during this period. The exchange rate of local currency against foreign ones was reduced to increase the levels of profits in sectors serving export markets. These major regulations also followed by generous incentives and tax exemptions to export facilities. The new program was implemented till 1988 without facing serious problems.

However two social and political events occurred in 1989 brought new dynamics affecting the functioning of economy. First of all government had to leave the redistribution policies since working classes mobilized and the major opposition party, namely Social Democrat People's Party, started to gain the support of popular masses. Wages in public and private sectors doubled in 1989. The other essential event of 1989 was the introduction of a new act, which provided freedom to capital flows in and out of Turkey. In other words Turkish currency gained a convertible character and Turkish economy has been a financial market for foreign capital in 1989. The financial liberalization converted the economy to a profitable financial market for foreign capital searching arbitrage profits. As a result, after 1989, huge capital flows occurred in and out of Turkey for short term profits. However major impacts of these capital movements have been three major financial crisis, massive increase of foreign loans and instability of economy.

Under these circumstances manufacturing industry, which is the primary circuit of capital accumulation in Turkish economy, seemed to have faced serious problems in terms of profitability. The structural defects of the industrial sector contributed to this problem. Industrial sector raised under the massive support of the state during ISI period could not improve its technology and productivity to compete in international markets. An important indicator regarding the problems of manufacturing during this period has been the growing gap between value added and capital investments within this sector. Capital accumulated within this sector

seems to have switched to some other fields of economy rather than invested in this sector.

According to our discussion on the spatial structure of Turkey in the recent past, two different periods of urbanization could be distinguished. These periods almost coincide with the periods characterized with different capital accumulation regimes. Rapid urbanization process in Turkey started with the process of import-substituting industrialization. The economic policies and state activity supporting mainly the industrial sectors and production ended up with a high rate of migration to urban areas. The major impact of migration has been the housing need of the newcomers who could not afford to buy or rent a house in legal ways at market prices. The lack of policies oriented towards sheltering newcomers and urban poor led those groups to produce and implement their own solutions. Squatters mushroomed at the outskirts of cities by occupying mostly public lands. Majority of migrated population which nearly constituted the half of the total urban population began to live in squatters in a very short period of time. The high tendency and demand to construct illegal squatters brought out a new channel within the land markets of big cities. Owners of the cadastral and agricultural lands along the outskirts of cities began subdividing and selling their lands to squatter builders. Squatters then spread from public lands to some private lands. Two different forms of property relations, namely appropriation and apportionment, emerged throughout this process of squatter developing.

The regular housing market was in quite similar conditions as well. The lack of sufficient and varied policies to produce legal housing and to shelter urban population also ended up with a new type of property relation. Appurtenance has been the main and dominant model of production of legal housing units. This model, by which multi-unit residential blocks were constructed, was based on the cooperation between landowners, builders and house buyers. Builders benefited from this system as they had the opportunity to gather most of their operating capital before starting the construction. In other words, builders had the possibility to operate with a limited amount of capital. House builders have also benefited from this system. They got rid of buying a whole plot to build a house on and hence had the opportunity to buy only a separate part of a building with relatively less cost. Landowners, on the other hand, enjoyed the development of

appurtenance. Appurtenance increased their bargaining and monopoly power over their lands and let them to receive nearly half of the total flats in an apartment block in return for their lands.

During the first period of urbanization in Turkey three forms of property relations emerged and developed to satisfy the production of urban built environment. All these three forms were initiated as an informal solution and evolved into legal, regular or at least semi-regular forms. The main reason behind the rise of these property relations has been the scarcity of capital which was ready to be spent to produce built environment. State preferred to use its resources to support industrial sector and allocated limited amount of budget to urban processes. Large and corporate capital groups and firms, who were satisfied with the levels of profits in industry, did not invest into urban areas. Under these circumstances the organization and production of urban space were left to the activities of petty developers and urban dwellers.

However the whole picture has changed after 1980. First of all the state changed its policies regarding the urban process. State intervened into the production of urban built environment not only by enacting new laws and policies but also by financing the construction activities especially the housing sector. Squatter amnesties brought a redevelopment process in those areas. By foundation of Mass Housing Administration and Mass Housing Fund state not only provide essential amounts of finance to housing sector but also involved in the sector as a developer. The main result or reflection of these changes has been the increase in the volume of investments in the construction sector starting with 1982. The total amount of buildings rose from 4.4 million to 7.8 million with an increase percentage of 79 between 1980 and 2000. All these shows that in addition to the state big capitalist groups also attempted to gain a share from urban ground rents by investing into the production of urban built environment. Some authors claim that the division of labour between capitalists, which was constituted during the ISI era, ended after 1980 and big capitalists began sharing the secondary circuit activities with petty entrepreneurs and capitalists.

Consequently, it could be stated that the dynamics and features of the urban process have changed after 1980 in Turkey. The volume of the production of building stock increased rapidly. The actors operating within the production of

urban built environment seemed to have varied. State and big capitalists, who were interested merely in the industrial production during import-substituting, directly took part in the production of built environment. However the analysis included in this section is not deep enough to accept the latter mentioned claims. In the following chapter we will analyze post-1980 period in detail. We will make an analysis on the development of Turkish construction sector during the post-1980 period. The aim would be to determine the different growth and decline trends in construction activity as well as the dynamics and factors behind these trends.

## **CHAPTER 4**

### **A MACRO ANALYSIS: Development of Construction Sector after 1980 in Turkey**

#### **4.1. INTRODUCTION**

In this chapter a macro-level inquiry about Turkish construction sector is presented. The inquiry focuses specifically on the post-1980 period in Turkey. 1980 refers to a date after which essential changes and transformations regarding the economic, social and political system in Turkey have taken place. This is also valid for construction sector or in general terms for the production processes of built environment. Balamir (1992, 101) argues that it is possible to classify the period starting from 1983 as a distinct period for construction sector in Turkey. He bases this claim on foundation of Mass Housing Administration and Mass Housing Fund. According to him (1992, 104), starting from 1984 mass production of housing became more widespread and started to gain importance against singular production. In addition to spreading of mass production he also stresses the emergence of institutional finance and credit usage to define this period as a distinct one. A similar judgment in terms of defining post-1980 period as a distinct one can also be found in a research on Turkish construction sector which was financed by the Turkish Contractors Association (TCA). According to this research by Batmaz and others (2006, 97-98), it is possible to define three distinct periods along the history of Turkish construction sector which are pre-1946 period, period between 1946 and 1983 and post-1983 period. Batmaz and others (2006, 98) claim that post-1983 period is a distinct one since Public Procurement Law (No. 2886) was enacted in 1983 and Turkish Contractors Association (TCA) started to become more active by the early 1980s. The reference to adoption of this new law has some negative implications in terms of opening the construction sector to corruption and malpractice activities as well as low quality contracting works (Batmaz and others 2006, 132-133).

There are certain aims of the macro-analysis given in this chapter. Before all, a crucial point should be mentioned. This inquiry is based on a certain assumption. We assume that construction activities, which are the major output of construction sector, are an essential and significant indicator of capital switches into the secondary circuit. This means that when the amount of capital transferred to or invested in the production of built environment increases the level and volume of construction activities will increase. On the basis of this assumption, we preferred to focus on the level of the activity and production in construction sector throughout this macro-analysis. The first intention behind such an analysis is to define the development process of construction sector in a historical manner. By doing this, we will be able to see the fluctuations or different trends constituting distinct sub-periods. Secondly the inquiry aims to find out the dynamics or factors causing these fluctuations or different trends. In other words, dynamics of growth and causes of decline are going to be determined in case of Turkish construction sector.

In order to achieve the aims mentioned above we will attempt to answer the following questions throughout the macro-analysis in this chapter.

1. How did the construction sector perform during post-1980 period in Turkey? **OR** Can we observe any substantial progress in the production of urban built environment during post-1980 period?
2. Is it possible to conclude that the production of built environment has grown regularly or continuously during the whole post-1980 period or during some certain sub-periods? **OR** Can we observe any construction boom during the whole post-1980 period or during some certain sub-periods?
3. If there occurred one or more boom periods, then what have been the determining factors of or reasons behind the construction boom(s)? Flip side of this question is also significant to ask. What have been the determining factors of or reasons behind the decline, if any observed?
4. Has the production of built environment been an attractive and an alternative field of investments after 1980?

We evaluated various secondary data about construction sector in order to answer these questions. First of all, we used the data which is directly on the volume and level of production in the construction sector. Values and shares of GNP in the construction sector, numbers of annual construction permits, etc. have been the major ones of these data. Secondly, we benefited from another set of data which in on the activity of the construction sector. Employment figures in the sector, figures on newly established construction firms and companies, etc. have been the foremost examples of these data. In addition, we also benefited from some other data, which are about the macro-economic conditions, while discussing the reasons behind the different trends in construction activities. In addition to the secondary data analysis we also made use of the findings of research or studies made by several authors, organizations and key actors operating within the construction sector.

## **4.2. DEVELOPMENT OF THE CONSTRUCTION SECTOR**

### **4.2.1. Level of Production in Construction Sector**

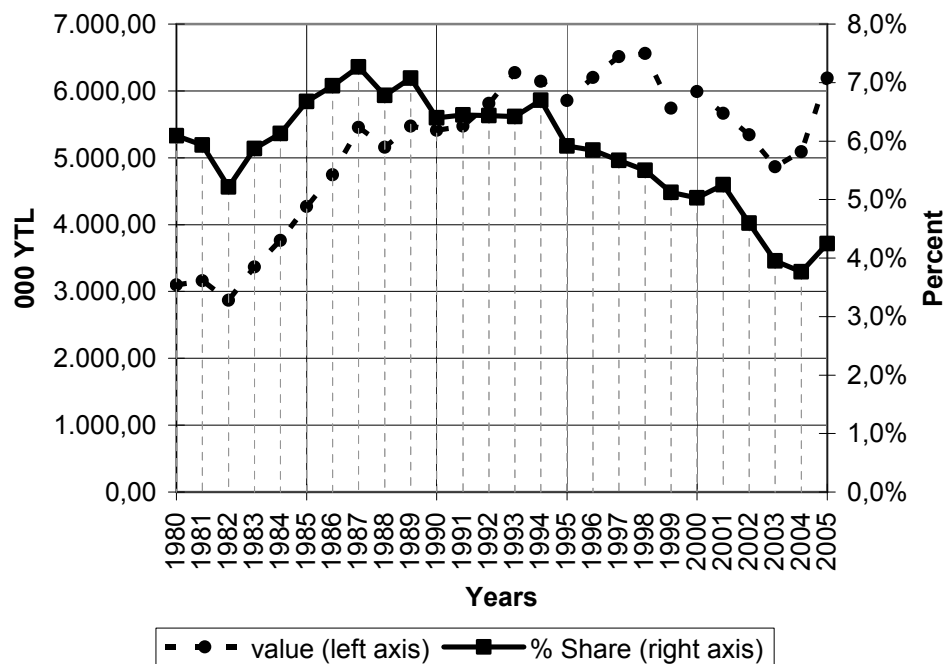
In order to define the development process of construction sector and to find out the sub-periods including different trends we will first check the levels of production of the sector in terms of contribution to Gross National Product (hereafter GNP) and numbers of construction starts. The table given below and the two charts following it include data about Total GNP and GNP of construction sector.

**Table 4.1: Values, Shares and Growth Rates of Gross National Product (at 1987 prices)**

Years	VALUES (000 YTL)		% SHARE	GROWTH RATES	
	Construction Industry	Total GNP	Construction Industry	Construction Industry	Total GNP
1980	3.096,90	50.869,92	6,1%		
1981	3.161,30	53.316,85	5,9%	2,1%	4,8%
1982	2.865,90	54.963,22	5,2%	-9,3%	3,1%
1983	3.364,60	57.279,00	5,9%	17,4%	4,2%
1984	3.761,10	61.349,83	6,1%	11,8%	7,1%
1985	4.272,70	63.989,10	6,7%	13,6%	4,3%
1986	4.744,50	68.314,88	6,9%	11,0%	6,8%
1987	5.451,70	75.019,39	7,3%	14,9%	9,8%
1988	5.159,00	76.108,14	6,8%	-5,4%	1,5%
1989	5.471,80	77.347,31	7,1%	6,1%	1,6%
1990	5.411,40	84.591,72	6,4%	-1,1%	9,4%
1991	5.472,60	84.887,07	6,4%	1,1%	0,3%
1992	5.814,30	90.332,52	6,4%	6,2%	6,4%
1993	6.271,90	97.676,59	6,4%	7,9%	8,1%
1994	6.144,40	91.733,01	6,7%	-2,0%	-6,1%
1995	5.857,50	99.028,24	5,9%	-4,7%	8,0%
1996	6.200,10	106.079,78	5,8%	5,8%	7,1%
1997	6.511,00	114.874,20	5,7%	5,0%	8,3%
1998	6.559,70	119.303,12	5,5%	0,7%	3,9%
1999	5.739,00	112.043,83	5,1%	-12,5%	-6,1%
2000	5.991,40	119.144,47	5,0%	4,4%	6,3%
2001	5.662,30	107.783,06	5,3%	-5,5%	-9,5%
2002	5.345,50	116.337,62	4,6%	-5,6%	7,9%
2003	4.865,70	123.164,99	4,0%	-9,0%	5,9%
2004	5.091,80	135.308,02	3,8%	4,6%	9,9%
2005	6.188,58	145.650,60	4,2%	21,5%	7,6%

Source: TÜİK (2006)





**Chart 4.1: Value and Share of Construction Sector in Gross National Product – at 1987 prices (Source: TÜİK, 2006)**

The chart above displays both value and share of construction sector in total GNP. Rapid increase which occurred between 1982 and 1987 is remarkable. The contribution of the construction sector to total GNP increased rapidly in this period. The share of the sector increased from 5.2% in 1982 to 7.3% in 1987 which is the peak of the post-1980 period. The share of construction sector in total GNP has never reached that figure again. Türel (1989, 140) provides similar figures regarding only housing sector. According to him, the share of housing investments in total GNP has been 5.09% in 1987 and 6.34% in 1988. He (1989, 139) asserts that these figures are similar to those of developed countries. This also tells us how substantial the growth in construction activities between 1982 and 1988 was.

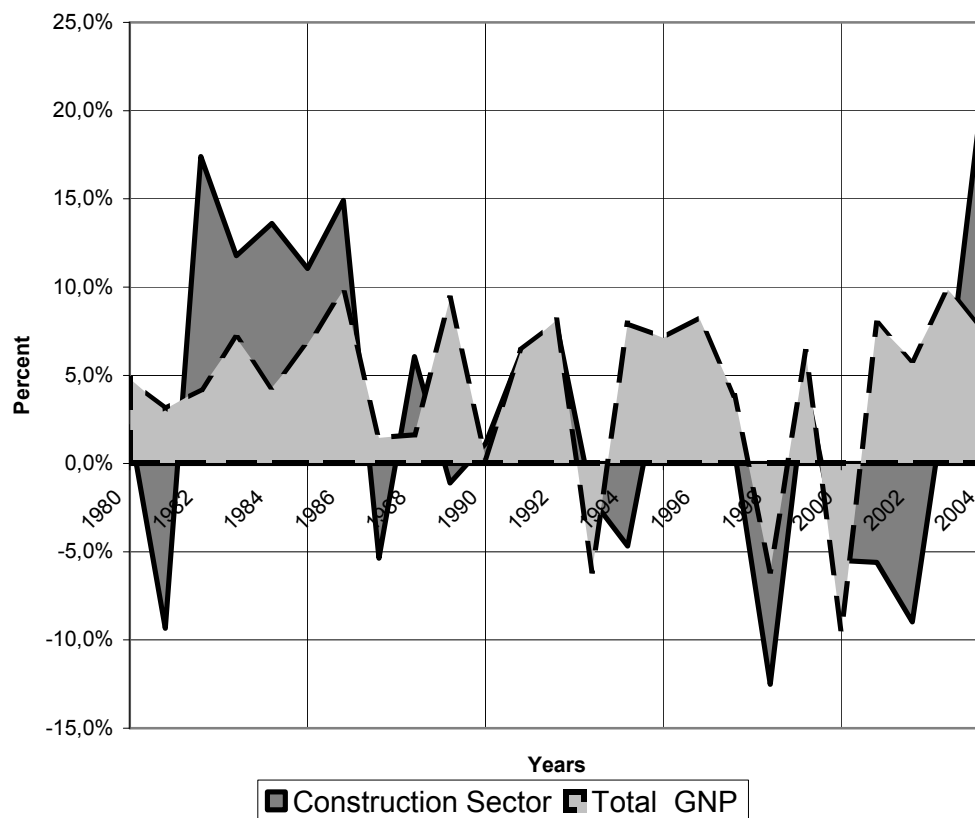
The increase is not only limited to the share but also valid for the value of GNP in monetary terms. The value of GNP in construction sector increased from 2.866.000 YTL in 1982 to 5.451.700 YTL in 1987. However this trend of increase seems to have ended by the year 1988. The period between 1988 and 1994 could

be named as a period of stagnation. Although there was a slight decline in the beginning of this period it seems appropriate to conclude that the share of construction sector in total GNP remained nearly the same during this period. The share which was 6.8% in 1988 declined to 6.7% in 1994.

1994 has been the year after which a decrease seems to have occurred. The share of construction sector in total GNP started to decrease by the year 1994 and continued till 2004. Despite a single exception in 2001, the decrease in the share of construction sector in total GNP has been a steady one. The share of construction sector in total GNP decreased from 6.7% in 1994 to 3.8% in 2004. The figure for 2004 has been the lowest level of the production of construction sector during the whole post-1980 period. Moreover the average of the share of construction sector in total GNP between 1982 and 1987 has been 6.3% whereas the same figure has been 5% between 1995 and 2004. There is one thing that we should mention here. The value of GNP in monetary terms in construction sector did not decrease as steady as the share in total between 1994 and 2004. The increasing trend in the value (at 1987 prices) of GNP in construction sector continued between 1994 and 1998. The value increased from 6.144.400 YTL in 1994 to 6.559.700 YTL in 1998, which is an increase of 6%. This should be accepted as a minor increase when compared to the increase in the total value of GNP in the same period. The total value increased from 91.733.010 YTL in 1994 to 119.303.120 YTL in 1998, which is approximately an increase of 30%. Nevertheless after 1998, the value of GNP in construction sector decreased just like its share in total. The value (at 1987 prices) decreased from 6.559.700 YTL in 1998 to 4.865.700 YTL in 2003 and 5.091.800 YTL in 2004.

In order to understand how low the figures has been for the share of construction sector in total GNP during 1994 and 2004 it is useful to refer to the figures given by Balamir (1982 and 1992). Balamir (1982, 14; 1992, 87) mentions that “the shares of construction sector in total GDP for low-income, middle-income and high-income countries were calculated to be 8.5%, 11% and 11.9% respectively”. The average of the share of construction sector in total GNP between 1994 and 2004 in Turkey was 5%. This figure is very low when compared to the average figure (11%) given for middle-income countries.

The chart given below includes data on growth rates of total GNP and GNP in construction sector for post-1980 period. According to the data on the chart construction sector has grown faster than the whole economy between 1981 and 1987. Construction sector has grown with an average rate of 8.8% between 1981 and 1987 while the average growth rate for the whole economy has been 5.7% during the same period. Such an evaluation seems to be true for single years 1989 and 2005 as well. Construction sector has grown faster than the whole economy at those years. However the chart reveals that after 1987 construction sector has been in worse conditions than the whole economy. Sector not only fails to reach the growth rates of whole economy during this period but also shrank at some certain times while economy was growing. It is possible to observe this pattern or trend clearly between 1994 and 2004.



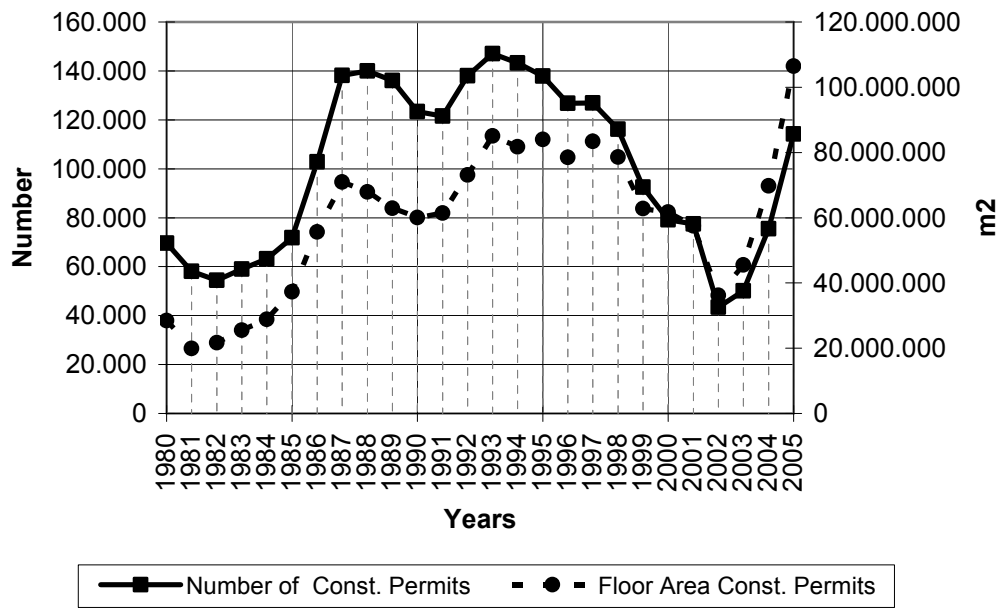
**Chart 4.2: Growth Rate of Total GNP Value and GNP in Construction Sector**  
(Source: TÜİK, 2006)

Another indicator showing the level of production in the construction sector is in no doubt that the number of buildings produced. The table and the chart given below include data and figures on the number of buildings produced by type as well as the floor area they cover. First of all, it is necessary to note that the data and the figures below cover only construction permits. We hesitated to use the data on occupancy permits since they don't cover the actual amount of buildings being used. It is well known for Turkey that an important amount of buildings which are already in use does not have occupancy permits. That's why the figures regarding occupancy permits have a potential to mistake the researchers (Balamir 1982, 39-41). Moreover figures about construction permits indicate construction starts, which mean the total amount of capital invested in building construction activities. In this regard, as we are interested in capital flowed and invested in the production of built environment construction permits best fit our aims.

**Table 4.2: Number & Floor Area of New Buildings (Construction Permits)**

Years	All Type Of Buildings		Residential Buildings	
	No. of Permits	Floor Area (m2)	No. of Permits	Floor Area (m2)
1980	69.579	28.422.401	61.849	22.380.958
1981	58.103	19.884.344	49.692	15.457.564
1982	54.361	21.728.271	46.902	17.334.180
1983	58.968	25.554.984	49.227	18.971.107
1984	63.153	28.887.793	52.791	22.146.716
1985	71.844	37.251.360	61.793	29.794.484
1986	102.888	55.624.440	91.982	46.002.538
1987	138.155	70.912.137	125.665	57.535.273
1988	139.995	67.861.304	128.403	53.514.301
1989	136.015	62.923.939	123.232	47.234.840
1990	123.304	60.083.035	109.398	43.918.561
1991	121.486	61.447.817	108.785	46.363.589
1992	137.990	73.062.016	127.175	57.130.442
1993	147.033	85.080.806	135.281	67.626.275
1994	143.281	81.715.801	132.297	65.383.578
1995	137.905	83.956.863	127.297	66.524.750
1996	126.722	78.477.686	112.431	58.397.238
1997	126.956	83.388.824	115.308	60.781.404
1998	116.235	78.588.789	105.748	56.376.833
1999	92.469	62.761.914	84.619	45.517.082
2000	79.140	61.694.941	70.292	45.352.124
2001	77.430	57.449.494	68.514	40.332.702
2002	43.430	36.187.021	36.973	25.461.564
2003	50.140	45.516.030	42.284	32.511.687
2004	75.495	69.719.611	65.286	51.080.151
2005	114.254	106.424.585	99.220	82.297.998

Source: TÜİK (2006)



**Chart 4.3: Number and Floor Area of All Type of New Buildings** (Source: TÜİK, 2006)

According to the figures on the chart both the number of construction starts and the amount of floor area of those constructions increased rapidly between 1982 and 1988. In this period the number of construction permits given increased from 54.361 in 1982 to 139.995 in 1988. In other words, the number of annual construction starts in 1988 has been 2.5 times more than the annual construction starts in 1982. Besides, it should be noted that the number of permits given in 1988 has been the second highest number of permits given during the whole post-1980 period.

However the increasing trend in new construction starts seems to have finished by 1988 for the following three years. The number of construction permits decreased from 139.995 in 1988 to 121.486 in 1991. This decrease in the trend was followed by an increase for two years and the peak of post-1980 period in terms of construction starts was reached at 1993. The number of annual construction starts has been 147.033 in 1993. Although there was a slight decrease and increase respectively between 1989 and 1993 it could be

concluded that this period has been a period of stagnation. The numbers of construction starts in 1988 and in 1993 were nearly the same.

It seems appropriate to identify the period starting with 1994 and ending in 2002 as a period of decline when the annual number of construction permits are considered. It is obvious on the chart 4.3 that the construction starts during this period slowed down rapidly. The number of construction permits decreased from 147.033 in 1993 to 43.430 in 2002 and to 50.140 in 2003. The annual average of the growth rate of number of construction permits have been -12.6% between 1994 and 2002 whereas this figure was 18% between 1982 and 1988. The annual numbers of construction permits given in 2002 and 2003 have been the lowest numbers ever happened during the post-1980 period. In other words, the bottom levels of the production in Turkish construction sector, in terms of numbers of new construction starts, were realized in 2002 and 2003.

There is controversial point which has to be discussed here. It is appropriate to state that construction activities have decreased between 1994 and 2002 when the figures on construction permits are considered. However the figures on the area of new construction starts do not support this statement, especially for the years between 1994 and 1997. Despite the slight decreases in 1994 and in 1996, the total area of annual construction starts seems to have remained nearly at the same levels between 1994 and 1997. The annual amount of the area of new constructions has been about 80 million square meters in this period. This statement is not valid for the figures on residential buildings (Table 4.2). The total area of new residential buildings has decreased between 1994 and 1997 as well. Despite this controversial point, we chose to focus on the figures on construction permits while evaluating the development trend in construction activities throughout this chapter<sup>3</sup>.

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<sup>3</sup> There are certain reasons of this choice. According to our opinion, data of the total area of new construction starts has some advantages and disadvantages. In other words, this data has the risk to mislead the researchers for some reasons. First of all, housing construction constitutes the majority of the building construction activities. For instance, approximately 80-85% of the total building construction has been housing construction in Turkey during post-1980 period. It is also a well-known fact that in the case of residential buildings, average size of residential units (dwellings) increases in time. For example, during the first half of 1980s, average size of a dwelling was about 110 m<sup>2</sup> in Turkey. However this figure has increased to 150 m<sup>2</sup> in the first half of the 2000s. In other words, average area of a dwelling has increased 35% in the last 20 years in Turkey. This means that we will observe a difference of 35% between the areas of the same amount of housing

Finally it should be noted that another increasing trend in construction activities seems to have started by the year 2003. The annual numbers of construction permits have been 75.495 and 114.254 in 2004 and 2005 respectively. These figures mean that the number of construction starts in 2005 was approximately 2 times more than the construction starts in 2002 and 2003.

Besides, by using the data on GNP values and construction starts it is possible to check the level and direction of the relation between construction sector and the entire economy. In order to do this we made two correlation analyses. In the first one we analyzed the relation between the total GNP value and the value of GNP in construction sector. Table 4.3 presents the results of this analysis. We calculated the correlation coefficient, which is significant at the 0.01 level, as 0.749 between these two variables. This coefficient shows that there is a strong and a positive correlation between GNP values in total and in construction sector. In other words, it is appropriate to state that the productivity in construction sector, to a certain extent, moves together with the productivity in the entire economy.

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construction occurred in the early 1980s and 2000s. Moreover if it is supposed that the number of housing units constructed in the early 1980s was 35% more than the housing units constructed in the early 2000s it would be inevitable in such a case to conclude that housing construction remained same in these two periods by using the data on the area of construction starts. Secondly, the data about the number of construction starts that we have used in this chapter covers all type of buildings. The data includes the numbers concerning the industrial buildings as well. Industrial buildings are the buildings which cover large floor spaces and constructed mainly for use-value purposes. For instance, the average floor area of an industrial building has been 2500 m<sup>2</sup> between 1995 and 2005 in Turkey. When the total area of construction starts is considered figures on industrial buildings, which are less in quantity but large in size, will gain a substantial role. For example, number of construction permits given to industrial buildings was 2831 and the area covered by these permits was 7.382.925 in 2005 in Turkey. These figures mean that 2.7 % of all construction permits was the permits given to industrial buildings in 2005 whereas this ratio increases to 7.5% when the floor spaces of these buildings are considered. As seen from these figures, when the data concerning the area of new construction starts are considered figures on industrial buildings, which are not constructed for speculative reasons and for profit purposes, influence the analysis. For these reasons, in our analysis we based our evaluation on the number of new construction starts and gave a secondary role to the figures on the area of new construction starts. Nevertheless we have to mention that this evaluation is open to criticisms.

**Table 4.3: Correlation between GNP Values in Total and in Construction**

		gnp_total _value	const_gn p_value
gnp_total_value	Pearson Correlation	1	,749**
	Sig. (2-tailed)	.	,000
	N	26	26
const_gnp_value	Pearson Correlation	,749**	1
	Sig. (2-tailed)	,000	.
	N	26	26

\*\* . Correlation is significant at the 0.01 level (2-tailed).

In the second analysis, which is presented on table 4.4, the figures on construction starts and GNP are used. When dependent variable is taken as construction starts in terms of m<sup>2</sup> construction in a year, again a significant correlation is achieved. This time, the correlation coefficient is calculated as 0.670 which is also significant at 0.01 level. This coefficient supports the positive and close correlation between the construction sector and the economy as well.

**Table 4.4: Correlation between Total GNP Value and m<sup>2</sup> Construction Starts**

		gnp_total _value	const_m2
gnp_total_value	Pearson Correlation	1	,670**
	Sig. (2-tailed)	.	,000
	N	26	26
const_m2	Pearson Correlation	,670**	1
	Sig. (2-tailed)	,000	.
	N	26	26

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Significant coefficients are obtained in both of the correlation analyses. This result provides evidences to assert that there is not a counter-cyclical relationship between construction sector and the entire economy in the case of Turkey.



Consequently, most of the data and evaluation about the level of production in construction sector show similar results. It seems appropriate to identify three different sub-periods when the data and figures on production of the sector is evaluated. The first sub-period covers the years between **1980 and 1988. This sub-period could be defined as a period of increase or growth.** Not only the share of construction sector in total GNP but also the number of construction starts increased rapidly during this sub-period. The second sub-period seems to occur in between **1989 and 1994. This could be accepted as a period of stagnation.** The level of production in the sector has been almost same during this period. Finally the last sub-period which could be entitled as **a period of decline, covers the years between 1994 and 2003.** However it should be noted that the major decline in this sub-period has occurred after 1997. As the figures regarding the production in the construction sector seem to have increased after the year 2003 it could possibly be stated that 2002 has been the final year of the decline of late 1990s.

#### **4.2.2. Number of Companies and Employment Levels in Construction Sector**

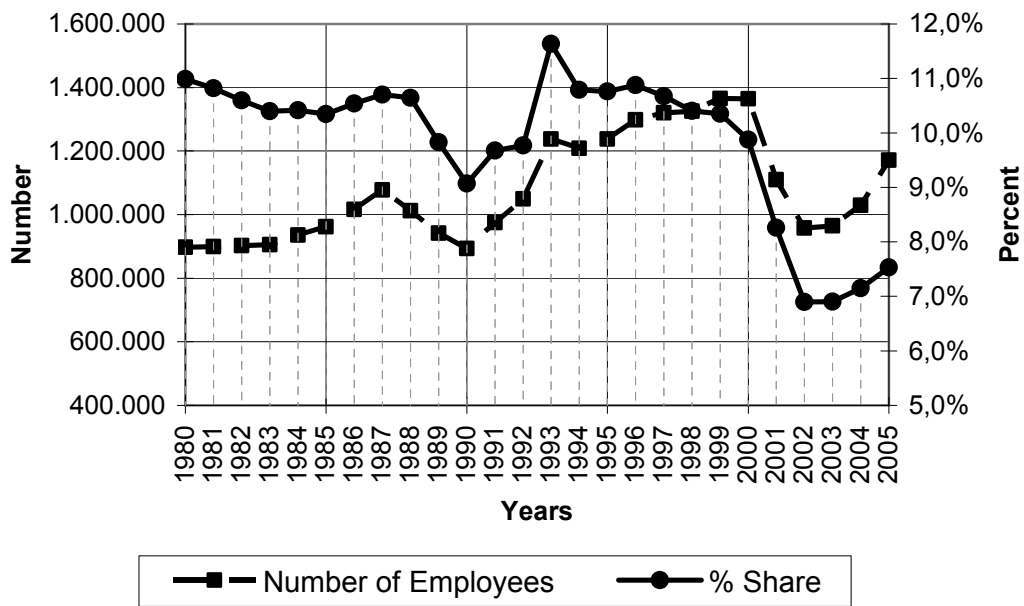
Second set of data that will be used in this chapter is on the employment levels in construction sector and the number of firms operating within the sector. Chart 4.4 and table 4.5 indicate the figures on employment levels in construction sector for the years between 1980 and 2005.

According to the table, number of employees in construction sector seems started to increase by 1980 and this increase seems to have continued till 1987. Number of people engaged in the sector increased from 897.000 in 1980 to 1.078.000 in 1987. This means that employment in construction sector increased 20% in 7 years. However the share of sector's employment in total employment remained almost same during this period. Despite the slight fluctuations, the share of construction sector's employment in total non-agricultural employment remained more than 10% between 1980 and 1988.

**Table 4.5: Numbers and Shares of Employment in Construction Sector**

<b>Years</b>	<b>Total Employees</b>	<b>Non-Agricultural</b>	<b>Construction Industry</b>	<b>Construction / Non-Agricultural</b>
1980	16.523.000	8.163.000	897.000	11,0%
1981	16.664.000	8.311.000	899.000	10,8%
1982	16.837.000	8.511.000	902.000	10,6%
1983	17.004.000	8.704.000	905.000	10,4%
1984	17.260.000	8.988.000	936.000	10,4%
1985	17.547.000	9.301.000	962.000	10,3%
1986	17.865.000	9.642.000	1.016.000	10,5%
1987	18.268.000	10.071.000	1.078.000	10,7%
1988	17.755.000	9.506.000	1.012.000	10,6%
1989	18.222.000	9.583.000	942.000	9,8%
1990	18.539.000	9.848.000	893.000	9,1%
1991	19.288.000	10.076.000	975.000	9,7%
1992	19.459.000	10.741.000	1.049.000	9,8%
1993	18.500.000	10.638.000	1.238.000	11,6%
1994	20.006.000	11.193.000	1.208.000	10,8%
1995	20.586.000	11.506.000	1.238.000	10,8%
1996	21.194.000	11.935.000	1.298.000	10,9%
1997	21.204.000	12.367.000	1.320.000	10,7%
1998	21.779.000	12.740.000	1.325.000	10,4%
1999	22.048.000	13.192.000	1.365.000	10,3%
2000	21.580.000	13.811.000	1.364.000	9,9%
2001	21.524.000	13.435.000	1.110.000	8,3%
2002	21.354.000	13.896.000	958.000	6,9%
2003	21.147.000	13.982.000	965.000	6,9%
2004	21.791.000	14.391.000	1.029.000	7,2%
2005	22.046.000	15.553.000	1.171.000	7,5%

Sources: TÜİK (2006)



**Chart 4.4: Number and Share of Employment in Construction Sector**  
(Source: TÜİK, 2006)

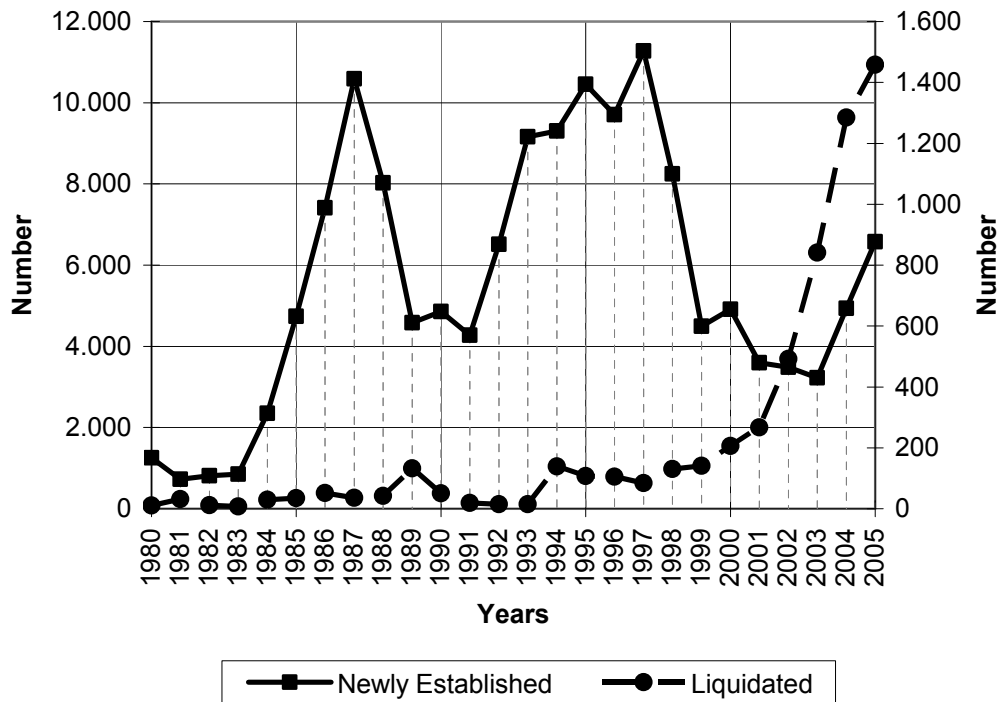
However there occurred a decline for three years both in the number and share of sector's employment after 1988. The number of employees decreased from 1.078.000 in 1987 to 893.000 in 1990 while the share of sector's employment decreased from 10.7% to 9.1% at the same years. The three years decline is then followed by a growth phase for three years. Both the number of employees and the share of employment in the construction sector increased between 1990 and 1993. Number of employees has been 1.238.000 in 1993 which means 11.6% of the total non-agricultural employment. According to the figures on chart 4.4, the year 1993 seems to be the peak year of the post-1980 period when the share of construction sector's employment in total is considered.

1993 again seems to be a year after which a decline period has started. The share of construction sector's employment started to decrease by 1993 and continued till 2003. During the 10 years between 1993 and 2003 share of sector's employment decreased from 11.6% to 6.9%. However the figures on number of employees demonstrate a different trend within the same period. Except the

decline in 1994 number of employees continued its increasing pattern till 2000, which seems to be the peak year of the post-1980 period in case of number of employees. The amount of people engaged in construction sector has been 1.364.000 in 2000 whereas it was 1.208.000 in 1994. However it should be noted that the rate of this growth was not as high as the rate of growth of total employment. The annual average of the growth rate of employment in construction sector has been 2% between 1994 and 2000 while that of total employment was 3.5% in the same period. This picture seems to have changed after 2000. The decreasing trend of the share of construction sector's employment was accompanied with the same trend of the number of employees after that year. Both of those figures decreased till 2003. The number of employees in construction sector was 965.000 and the share of this amount in total was 6.9% in 2003. In the light of these data, it could be appropriate to state that construction sector has generally failed to reach the general trends in or the growth rates of the entire economy between 1993 and 2003.

Finally at this point it should be mentioned that an increasing trend seems to have started after 2003. Both the number of employees and the share of sector's employment have increased in 2004 and 2005. Construction sector has gained 206.000 new employees and the share of its employment in total has risen to 7.5% during these two years.

Another indicator, which demonstrates the level of activity in a sector, could be accepted as the number of firms and companies operating in that sector. If the conditions and business climate is good enough for a sector it should be accepted that the number of firms and companies in that sector will rise. The opposite is also possible for periods when things are going bad for a sector's productivity and profitability. Such an analysis and an evaluation could be found below for Turkish construction sector during post-1980 period.



**Chart 4.5: Number of Newly Established and Liquidated Companies in Construction Sector (Source: TÜİK, 2006)**

The chart reveals that there happened a rapid increase in the annual amount of newly established companies between 1983 and 1987. The number of new companies increased from 722 in 1981 to 10.589 in 1987. Here again, 1987 appears as the final year of an increasing trend. The annual amount of new companies started to decrease after that year and continued till 1991. The new companies established at 1991 have been 4.276, which is less than the half of the amount in 1987. This decreasing trend was again followed by an increasing trend, which was lasted for 6 years and reached its peak at 1997. The number of new companies established at 1997 was 11.272. We observe a decline between 1997 and 2003. Only 3.222 new companies joined to the sector at 2003. The last two years 2004 and 2005 seem to be the initial years of another increasing trend.

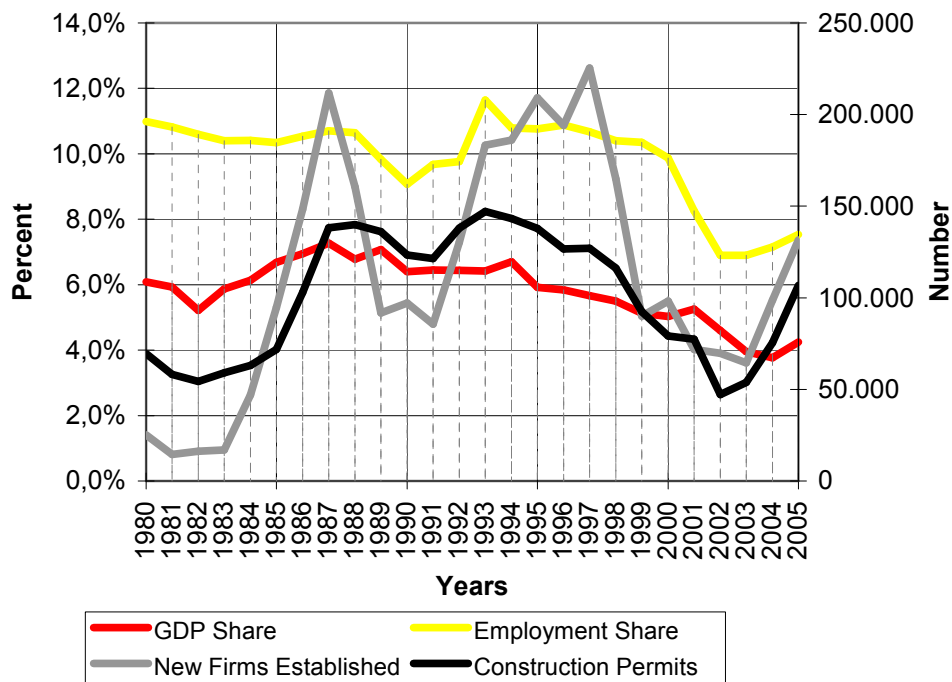
The figures of liquidated companies remained quite same between 1980 and 1997. Despite of some exceptional years like 1989 and 1994 it could be concluded that the trend in company liquidation followed a constant path, which

means the annual amount of companies liquidated has been less than 100 during that period. However the whole picture seems changed radically by 1997. There occurred a rapid and huge increase in the number of liquidated companies between 1997 and 2005. The annual amount of companies liquidated increased from 84 in 1997 to 1.458 in 2005. It is now clear that not only the number of newly established companies in construction sector decreased but also the number of companies liquidated was increased between 1997 and 2003.

As a result of the data and evaluation regarding the number of newly established companies in construction sector it could be concluded that the period between 1980 and 1987 and the period between 1991 and 1997 had good business climates since the number of companies operating in the sector increased. On the other hand, it is appropriate to assert that things went bad for construction sector during the years between 1987 and 1991 and the years between 1997 and 2003 since more companies were liquidated and fewer companies were established in these periods.

#### **4.2.3. Concluding Remarks**

Up to now we have presented and evaluated the data and figures showing how the level of production in construction sector and the level of its activity (in terms of employment levels and company establishments) have changed since 1980. Here we would like to make a synthesis of all these figures and to derive a conclusion about the development process of Turkish construction sector during post-1980 period. Chart 4.6 includes four of the figures which we discussed previously. These figures are the share of construction sector in total GNP, the annual number of construction permits, the share of construction sector's employment in total and finally the number of newly established companies.



**Chart 4.6: A Synthesis of the Indicators for Construction Sector**

According to chart 4.6 and our previous evaluations it is appropriate to distinguish four different sub-periods along the development of Turkish construction sector after 1980. According to us, each of these sub-periods coincides with different trends in the development of the sector.

The first sub-period, which could be entitled as **the period of growth**, is constituted by the years between **1982 and 1988**. Construction sector has experienced a rapid growth during this sub-period. The numbers of employees, construction starts and newly established companies as well as the share of sector in total GNP has all increased during this sub-period. The two outstanding figures characterizing this period are the share of sector in total GNP, which has risen from 5% to 7%, and the construction starts, which rose from 54.000 buildings to 140.000 buildings annually. However the year 1988 has been the final year of this growth phase.

The second sub-period, which covers **the years between 1989 and 1993**, could be defined as **the period of stagnation**. This sub-period involves a slight decline and a slight growth respectively. This pattern could be observed in all of the four figures on chart 4.6. Numbers of new companies and construction permits as well as the shares of sector's employment and GNP decreased during the first three years of this sub-period. However following this decline, all these figures indicated another increasing trend. At the end of this sub-period which is the year 1993 all the figures has at least gained their values of 1987. For instance, the share of construction sector in total GNP changed from 6.8% in 1988 to 6.7% in 1994, the number of construction permits changed from 140.000 in 1988 to 147.000 in 1993 and the share of employment changed from 10.6% in 1988 to 11.6% in 1993. As the figures changed very slightly during this sub-period we preferred to define this period as a period of stagnation. As an alternative view these two sub-periods could be accepted as a single period and defined as a period of growth between 1982 and 1993.

According to our opinion, the ten years between **1994 and 2003 constitutes the third sub-period**, which could be entitled as **the period of decline**. It is appropriate to mention that construction sector has been in very negative conditions in terms of productivity and profitability during this sub-period since most of the figures went down during this period. Some figures such as construction permits and the share of sector's GNP seem to have declined steadily. The share of construction sector in total GNP decreased from 6.7% in 1994 to 4.0% in 2003 while the annual amount of construction starts decreased from 143.000 to 54.000 for the same years. The picture is quite same when the employment figures are considered. The share of construction sector's employment in total non-agricultural employment decreased from 10.8% in 1994 to 6.9% in 2003. However it should be noted that the decline in this sub-period has become deeper especially after 1997. These figures and evaluation enable us to conclude that an upturn in construction activities has taken place between 1982 and 1988 whereas a downturn has occurred in the period between 1997 and 2003.

Finally the **last sub-period** appeared as a result of our analysis is **the period after 2003**. As the decline of late 1990s seems to have ended by the year 2003 it



is appropriate to define this period as **the period of growth**. All the figures especially the construction starts, number of new companies established and share of sector's employment demonstrates an increasing trend since 2003. The years 2004 and 2005 should be accepted as the initial years of a recovery period and as the start of a new growth phase in the development of construction sector.

After having defined the development trends and periods in construction sector, we will attempt to discuss the factors and dynamics behind these trends in the following section.

#### **4.3. DYNAMICS AND FACTORS AFFECTING THE DEVELOPMENT OF CONSTRUCTION SECTOR**

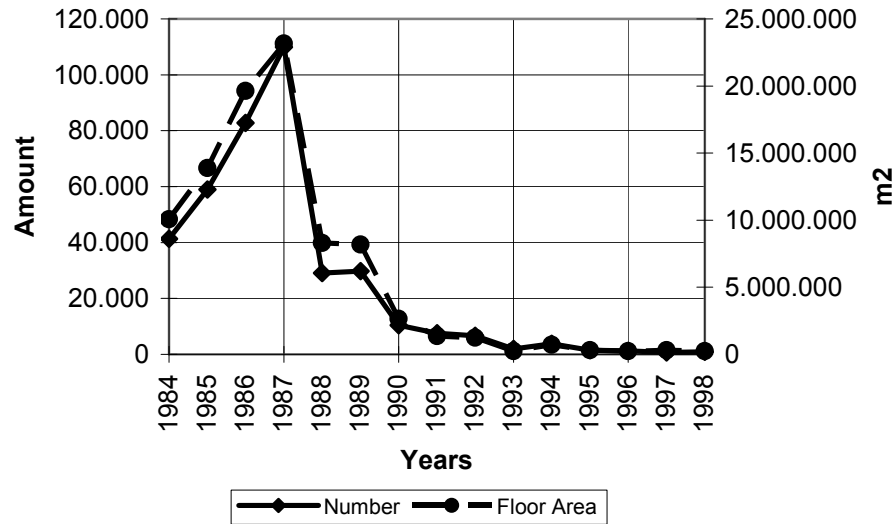
##### **4.3.1. Dynamics of the Growth**

The discussions that we have made in the previous section indicated us that Turkish construction sector has experienced a rapid growth during 1980s, especially between 1982 and 1988. The trend of growth slowed down after 1988 and sector's growth remained almost constant till 1993. For this reason, it is appropriate to state that the first half of post-1980 era in Turkey has been a growth period for Turkish construction sector. There are several dynamics, most of which are related to the state's activities in terms of its interventions and regulations, behind this growth process.

First of all, amnesties provided to illegal squatter settlements should be mentioned here. The amnesty laws numbered as 2981 and 3290 not only accepted the freehold tenure in squatters but also provided the opportunity of their transformation into apartment blocks. In other words, the amnesty laws triggered a redevelopment and a regeneration process in some parts of especially the big cities. These processes of redevelopment and regeneration brought out a big volume of construction facilities.

Chart 4.7 indicates the construction starts permitted by the amnesty laws. In other words, numbers of buildings, which were constructed through redevelopment and regeneration of former squatter areas, is presented on the chart. It is clear that the volume of construction activity between 1984 and 1988 increased rapidly. The number of construction starts increased from 40.000 in 1984 to 110.000 in 1987.

Construction permits given under amnesty laws decreased after 1989 and they almost stopped during 1990s. So it could be concluded that a substantial channel which fed the growth of Turkish construction sector during 1980s has been the transformation of squatter settlements into legal apartment blocks.



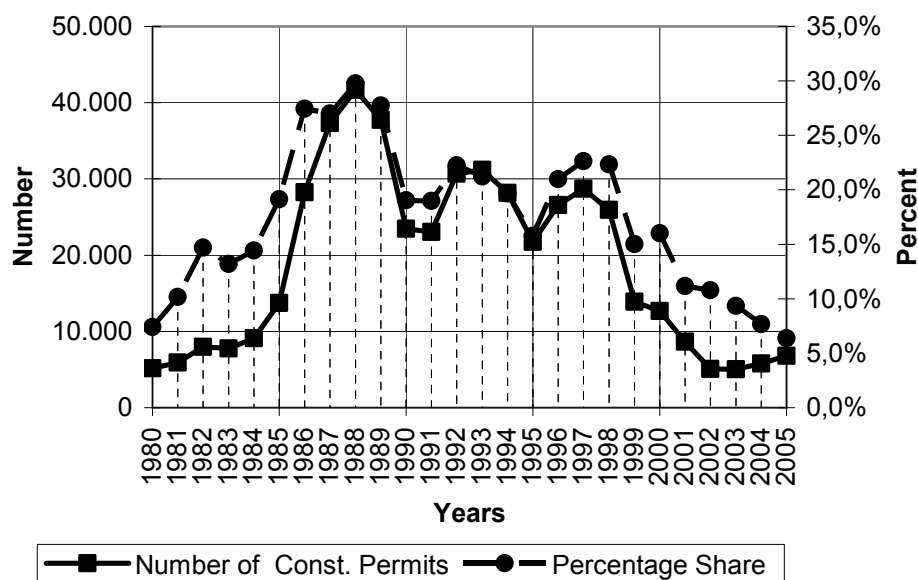
**Chart 4.7: Numbers and Floor Area of New Buildings Licensed By Amnesty Laws No. 2981 and No. 3290-Construction Permit** (Source: DPT, 2001)

The second development which is related to the growth of construction sector is the enactment of two important laws in the early 1980s. The first law numbered as 2983 concluded the foundation of a central public institution which is Mass Housing and Investment Administration (MHIA)<sup>4</sup> while the second law namely Mass Housing Law concluded the establishment of Mass Housing Fund to provide finance to mass housing projects (Türel 1996, 796; Buğra 1998, 308). The aim of Mass Housing Law and Fund was to equip the mentioned Administration with important powers and financial instruments (Işık 1991, 249). Just after their foundation HDA and the fund has become an important instrument to finance the

<sup>4</sup> The name of this institution has been changed lately as Housing Development Administration of Turkey. The abbreviation of the name of the institution is declared as HAD on their website. We preferred to use the latest name and abbreviation in this study in order to prevent the probable confusions during the reading.

housing sector in Turkey (Buğra 1998, 308). Both the fund and administration had several impacts on the construction sector and sector's growth.

By the foundation of HDA mass production of housing became widespread and gained popularity against singular production of housing. Construction firms and cooperatives which are able to carry out mass production started to dominate the sector and hence volume of housing production increased just after the foundation of HDA. Cheap credits provided through Mass Housing Fund to construction firms, cooperatives and house buyers contributed to the growth of construction sector between 1983 and 1988. Cooperatives benefited much from the finance provided by Mass Housing Fund and their share in total construction starts increased rapidly. The chart given below shows the construction starts by cooperatives and the change of their share in total production.



**Chart 4.8: Number of Construction Starts by Cooperatives and Their Share in Total** (Sources: TÜİK, 2003; TÜİK, 2005 and TÜİK, 2007)

According to chart 4.8 it could be mentioned that both the construction starts by cooperatives and their share in total increased rapidly between 1983 and 1988. The peak year at which the highest contribution of cooperatives to housing

production occurred has been 1988. At this year the number of construction starts by cooperatives reached 42.000 which are equal to nearly 30% of total construction starts at that time. The number of new constructions and their share began to decrease after 1988. The share of construction starts by cooperatives remained between 15% and 20% during the first half of 1990s before the major decline started at 1997. Cooperatives seem to have lost their weight within the sector during the last 10 years. For instance, their share in total construction starts has been slightly more than 5% at 2005. It should also be noted here that only the number of construction starts by cooperatives but also the number cooperatives increased rapidly during this growth period. The number of cooperatives increased from 523 in 1983 to 2810 in 1987 (TÜİK 2006, 342).

By the foundation of HDA the state also contributed to construction sector as a producer (Türel 1996, 797). HDA developed and constructed housing projects for low income groups. As construction firms and cooperatives aimed at developing projects mainly for middle income groups HDA intended to fulfill the gap regarding low income groups within housing market by itself (Buğra 1998, 309). During the ten years between 1984 and 1995 the number of construction starts by the state has been approximately 35.000 (Türel 1996, 797).

In the light of the foregoing discussion it could be asserted that both the administration and the fund have made essential contributions to housing production during the growth of 1980s. The financial support in terms of cheap credits not only enabled house buyers and increased the demand for housing but also encouraged construction firms and especially cooperatives to participate in the sector and hence increased the production. In addition to indirect involvement by providing finance the state directly involved in the process of housing production and developed housing projects by the hand of HDA. So it is obvious that the second substantial channel which fed the growth of Turkish Construction sector during 1980s has been the foundation of Housing Development Administration and Mass Housing Fund.

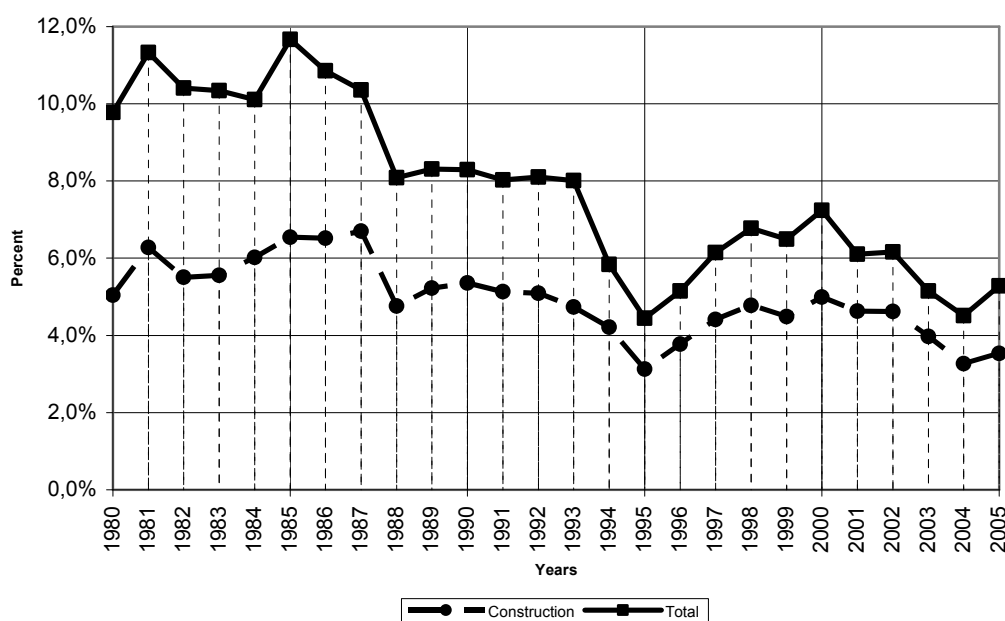
There is also another point that should be emphasized in the case of the growth of 1980s. Planning and urban development system in Turkey underwent essential and structural changes in the mid-1980s. Selective decentralization of planning powers and development controls constituted the main strategies within this

change. Municipalities were delegated the powers of plan preparation and approval with the enactment of Urban Development Law (No. 3194). Türel (2004, 703), asserts a connection between the restructuring of planning and urban development system and the housing construction boom of 1980s. According to him, decentralization of planning powers enabled and facilitated the rapid increase in housing supply. He justifies this claim on the idea that by decentralization, the process of developing urban lands have become easier and faster. Many big construction firms have benefited from this restructuring. They had the possibility of acquiring cheap peripheral lands and developing them in close collaboration with municipalities. Therefore in addition to squatter amnesties and arrangements concerning mass housing production and finance, it should also be noted that decentralization of planning powers and development controls as one of the state interventions have been another factor behind the housing construction boom of 1980s.

Discussions regarding the dynamics of the growth in construction activities during 1980s are not limited to the ones mentioned above. There are certain studies emphasizing the role of public infrastructure investments in the realization of the growth (Ercan and Saatçioğlu 2004; TCE 2004, DPT 2006). Ercan and Saatçioğlu (2004, 237) claim that there is a strong correlation between the construction sector's productivity and the amount of public investments supporting the sector. They calculated a correlation coefficient as 0.61 between the level of construction sector's output and the level of public sector investments. For this reason they define the main dynamic behind the growth of Turkish construction sector during 1980s as the high level of public infrastructure investments. Same arguments can also be found in the documents and reports prepared by the key actors, institutions and organizations of the sector. For instance similar claims or statements were made and declared by the work group on Construction Contracting Services arranged within the Turkish Congress of Economics at 2004 (TCE 2004). The work group accepted the correlation between public sector investments and sector's productivity and they claimed that level of public sector investments is highly determinative on the growth or decline of the construction sector in Turkey (TCE 2004, 344-345).

The report prepared by Special Expertise Commission on Construction, Engineering-Architecture and Contracting Services within the preliminary phase of 9<sup>th</sup> Development Plan also includes similar arguments, findings and assessments. The commission, whose members were the representatives of related institutions, NGOs and organizations as well as academics, argued and declared that the growth of Turkish construction sector during 1980s was mainly related to the infrastructure investments made by the state (DPT 2006, 26). In other words, the commission accepts the idea that there is a strong correlation between construction sector's productivity and the level of public built investments especially the infrastructure investments in Turkey. The reason behind the correlation is defined as the immature financial structure of Turkish construction sector. According to the commission report, Turkish construction sector has always been financially dependent upon public sector and its investments since the sector could not manage to find or develop alternative financial sources for investments (DPT 2006, 29). A similar assessment can also be found in the research made by Batmaz and others (2006). They argued that Turkish construction sector has always been dependent on the state as a source of finance and the state has largely been dependent on external sources to finance the construction activities within the country. American aids and NATO supplies of 1950s, foreign loans and credits taken from IMF and World Bank are given as notable examples of these external financial sources (Batzmaz and others 2006, 94-135).

Chart 4.9, for us, supports the recent claims and discussions. It displays the change of public sector investments in terms of its share in Gross Domestic Product. According to the chart, it is clear that the highest amounts of the share of public sector investments of all kind and public sector construction investments in GDP have occurred during 1980 and 1987, which is the period of growth in construction sector. The share of total public sector investments in GDP remained more than 10% and that of construction investments remained nearly 6% during this period.



**Chart 4.9: Percentage Share of Public Sector Investments in GDP** (Source: TÜİK, 2006)

According to the chart it is also clear that public sector investments decreased after 1987. During the six years between 1988 and 1993, the average share of public investments in GDP was 8%. As mentioned earlier this period is the period of stagnation in construction sector. However public sector investments seem to have decreased rapidly after 1993. The share of public investments in 1995 has been less than 5%. Therefore a period of increase and a period of decrease seem to have occurred respectively between 1995 and 2005. In spite of the increase in the second half of 1990s the levels of 1980s have never reached again. The average share of public investments has been 5.8% for the period between 1995 and 2005.

In order to check the level and direction of the relationship between the productivity in construction sector and public built investments, we made a correlation analysis. We used the figures on GNP value in construction sector and the value of public built investments (infrastructure and building expenditures) in this analysis. The results are presented on table 4.6. We calculated the

correlation coefficient, which is significant at the 0.01 level, as 0.673. This coefficient enables us to state that there is a strong and a positive correlation between the levels of public built investments and the productivity in construction sector.

**Table 4.6: Correlation between Public Built Investments and Construction Activities**

		const_gn p_value	kamuinsy atirim
const_gnp_value	Pearson Correlation	1	,673**
	Sig. (2-tailed)	.	,000
	N	26	26
kamuinsyatirim	Pearson Correlation	,673**	1
	Sig. (2-tailed)	,000	.
	N	26	26

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The figures on the recent chart and table support the ideas claiming that there is a correlation between the level of public built investments and the productivity of the construction sector in Turkey. High levels of public built investments and high levels of productivity in the construction sector seem to have occurred in tandem in Turkey. Therefore it is appropriate to conclude that the third channel which fed the growth in Turkish Construction sector during 1980s has been the expenditures and investments especially the infrastructure investments made by the state during 1980s.

Consequently, it could be stated that construction sector has grown substantially during 1980s due to some favorable conditions provided by the state. First of all, amnesties provided to squatter settlements and the priority given to mass housing production directly increased the volume of construction activities. Cheap credits supplied to the actors of construction sector not only enabled the supply side but also enriched the demand side within the market. Decentralization of planning powers and development controls has contributed to the growth by easing and



expediting the development of especially peripheral lands. Additionally high levels of public infrastructure investments fed the growth in construction sector during the same period. State as the main financier of the sector has satisfied not only the necessary fiscal conditions but also the legislative conditions supporting the growth of the sector. So the main dynamic or the factor behind the growth in construction activities in 1980s has been the state and its supportive policies.

#### **4.3.2. Causes of Decline**

Following the growth of 1980s construction sector has entered into a decline period after 1994. The decline has deepened and intensified especially after 1997 and continued till 2003. Volume of building production as well as the employment in the sector and its contribution to GNP decreased during this period. Several factors are being indicated as the causes of this decline. As growth is related mainly to the state's interventions and favorable policies, especially the increase in public infrastructure investments, the decline is also related to the change of the state's attitude, which means the reduction of infrastructure investments and finances supplied to the sector.

The state opposite of the previous period started to reduce the amount of all kinds of expenditures and investments as well as the construction and infrastructure investments after 1994. As mentioned lately the average of the share of total public sector investments in GDP has been 5.8% between 1994 and 2005, which was nearly the half of the average achieved between 1980 and 1987. The picture has been nearly the same for public construction investments. The average of the share of public construction investments in GDP was 6% when the sector was growing during 1980s. However it has decreased to 4% during the decline of the late 1990s. All the research and studies referred in the previous section stress the idea that the main cause of the decline in construction sector has been the reduction in public investments (Ercan and Saatçioğlu 2004, 238; TCE 2004, 346; DPT 2006, 28; Batmaz and others 2006, 238-239).

It seems clear that the state changed its preferences and policies regarding the construction sector by reducing the amount of investments. Although this is an important finding it is not sufficient. It is necessary to discuss and clarify the reasons behind this change. There again seems to be a consensus over the

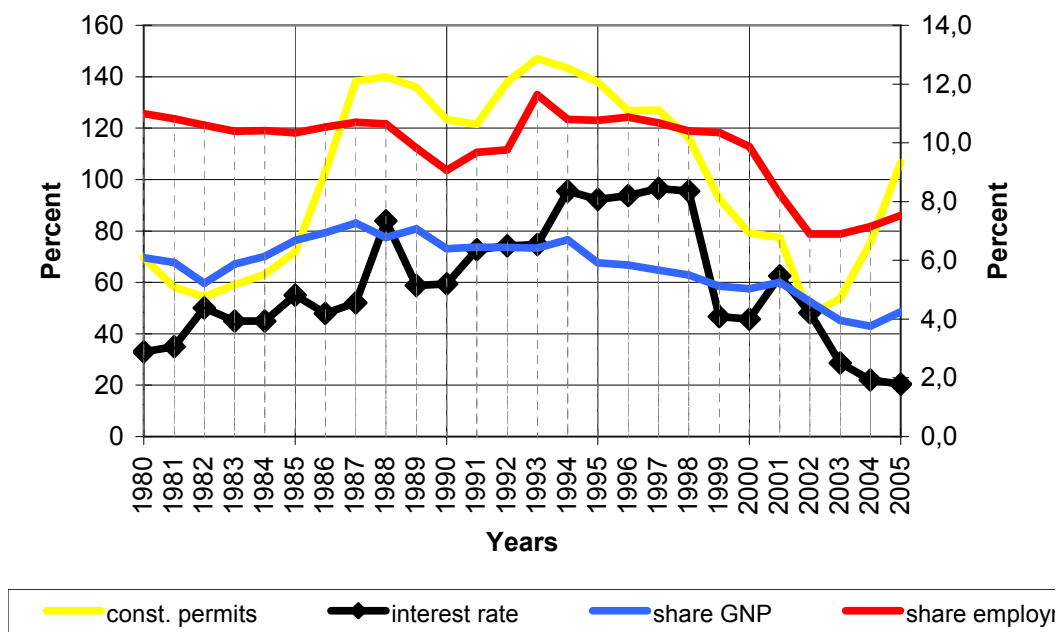
definition of the reasons behind this change in the state's policies and preferences. Ercan and Saatçioğlu (2004, 240) stress the macro-economic conditions occurred after 1990 as the main reason. According to them, macro-economic instability and several economic crises occurred in this period forced the state to implement stabilization programs which dictates the state to increase its savings and decrease its expenditures (Ercan and Saatçioğlu 2004, 240). At this point it is necessary to note that the first serious economic crisis of post-1980 period occurred at 1994, which is also one of the initial years of the decline in Turkish construction sector. A very similar evaluation is made in the report prepared by Special Expertise Commission on Construction, Engineering-Architecture and Contracting Services during the preliminary phase of 9<sup>th</sup> Development Plan. Commission stresses that the state was forced to make substantial savings by reducing the amounts of investment expenditures in order to get rid of budget deficits and to reduce the high amounts of public debt stocks in 1990s (DPT 2006, 28).

In addition to the increasing tendency of the state to make savings and hence to reduce the amount of public investments high rates of interest has been another essential cause of the decline in construction sector after 1994 (TCE 2004, 344). High interest rates were also the outcomes of the macro-economic conditions. As discussed in the previous chapter Turkish economy has entered into a new sub-period after 1989. A decision, which was adopted in 1989, provided full freedom to capital flows between Turkey and foreign financial markets (Altıok 2002, 103; Boratav 2003, 179). In other words, after 1989 Turkey became a financial market for international capital for short-term investments.

The major outcome of the financial liberalization in Turkey has been the rapid increase of interest rates. It is a well known fact that high interest rates have negative impacts on the construction sector. High rates of interest increase the cost of production and house prices as most of the contractors and developers are dependent on bank credits in order to finance their production. Moreover it is widely accepted that the increase of house prices and the increase of interest rates decrease the demand for housing in both developed and underdeveloped countries. Turkey is not free from this situation as well. There exists such a negative relationship between interest rates and housing demand in Turkey

(Korum 1982 cited in Türel 1989, 138). Most of the potential house buyers prefer to invest their savings in deposit banks to gain from high profits in such cases (Türel 1989, 138). Such negative impacts were clearly observed during the late 1990s in Turkey (TCE 2004, 344).

The chart given below provides some data and figures to monitor the relationship between interest rates and development of the construction sector. As obvious on the chart, the interest rates were relatively low during the period of growth in construction sector during 1980s. The highest annual rate of interest was 55% and the average interest rate was 45% between 1980 and 1987. However interest rates seem to have increased steadily after 1989 when the financial market was liberalized in Turkey. The average rate of interest was 70% between 1988 and 1993, which is the period of stagnation in Turkish construction sector. In more concrete terms, the annual average of interest rate was 45% during the growth period, whereas this amount increased to 70% during the period of stagnation.



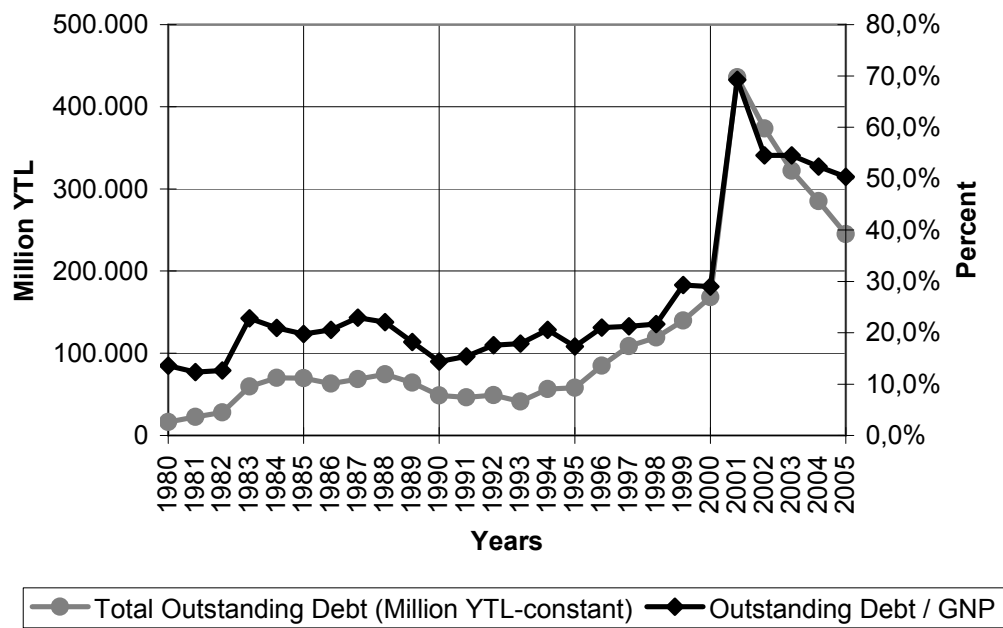
**Chart 4.10: Some Indicators for Construction Sector**

The interest rates seem to have reached their highest levels after 1993. During the five years between 1994 and 1998, interest rates were nearly 100% annually. The highest rate of interest was 97% and the average rate of interest was 75% between 1994 and 2002 which is the period of decline in construction sector. The real interest rates were also high in this period. Except the crisis years, the highest rate of real interest has been 7.4% in 1996 and the annual average of real interest was nearly 5% between 1994 and 2002. There is an important point which should be mentioned here. As it is clear on chart 4.10 the interest rates seems to have decreased after 1998. The interest rates were nearly 45% at 1999 and 2000. Despite the decrease of interest rates after 1998 we have seen that the decline in construction sector was deepened after 1997. The continuing decline of the sector after 1997 is also related to another issue. The two serious earthquakes that have taken place in 1999 had substantial negative impacts on construction sector. Finally, the interest rates seem to have decreased rapidly after 2001. The average rate of interest has been 24% between 2003 and 2005. This period appears as the initial period of another growth phase in construction sector. Therefore, according to the figures presented on chart 4.10 it is appropriate to conclude that there is a negative relationship between the productivity of construction sector and the level of interest rates.

The negative relationship between interest rates and construction sector's productivity is generally discussed in terms of the increasing or decreasing levels of demand since interest rates affects production costs and house prices. However the research by Batmaz and others (2006) stresses some other important impacts of the macro-economic instability and high interest rates on construction sector. They (2006, 238-239) argue that under macro-economic instability, high rates of interest and the hegemony of finance capital the state in Turkey was forced to finance the economy by borrowing either from international sources or from domestic sources especially after 1994. Domestic borrowing according to them (Batmaz and others 2006, 239) has been the major way of running the economy. Under such circumstances private sector companies and capitalists preferred to lend money to the state rather than investing it into productive sectors and hence preferred to gain from interests rather than profits. As an indicator of this economic situation Batmaz and others (2006, 239) shows that the ratio of non-operating revenues of private sector companies over their

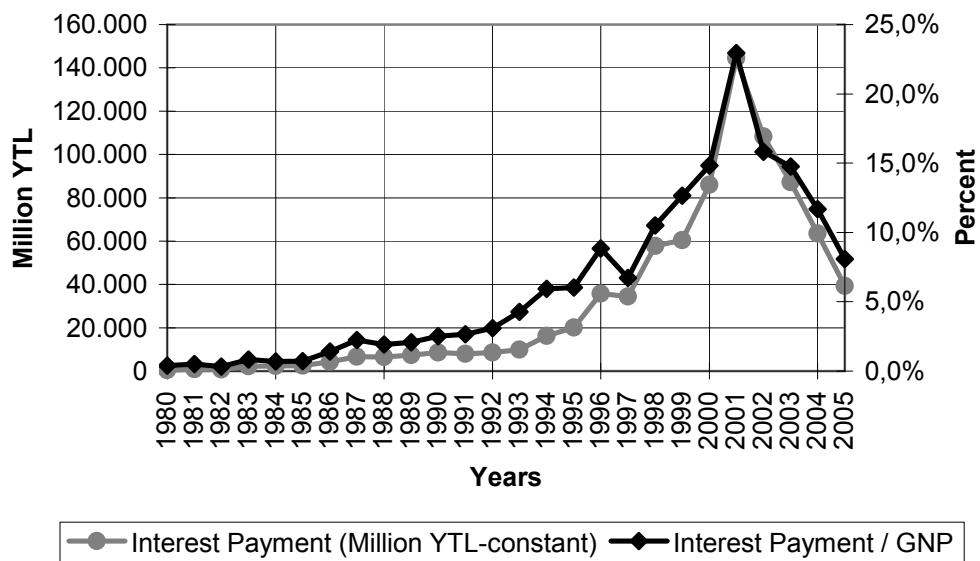
balance sheet profits increased from 24% in 1985 to 219% in 1999. This shows that private sector companies preferred to invest into financial markets and gain from high interests rather than investing that money into their original sectors. This statement and evaluation could also be found in the studies of some economists such as Boratav (2003, 189), Yeldan (2001a, 155-157), Altıok (2002, 114). They all mention that especially after mid-1990s, high rates of interests and the growing attraction of financial markets enabled capitalists to switch their capital from productive sectors to speculative financial markets.

In order to check the latter statements some related data should be examined. The chart given below displays the figures on domestic borrowing for post-1980 period in Turkey. The grey line stands for the monetary value of the total outstanding domestic debt of the state and the black line for the share of total outstanding debt in GNP. These figures, for us, are useful to see to what extent the state made domestic borrowing in the mentioned period. As a general impression it could be said that domestic borrowing dominated the economic system severely after 1995 in Turkey. The total outstanding domestic debt of the state increased from 58.000 million YTL, which is 17% of GNP, in 1995 to 436.000 million YTL, which is 70% of GNP, in 2001.



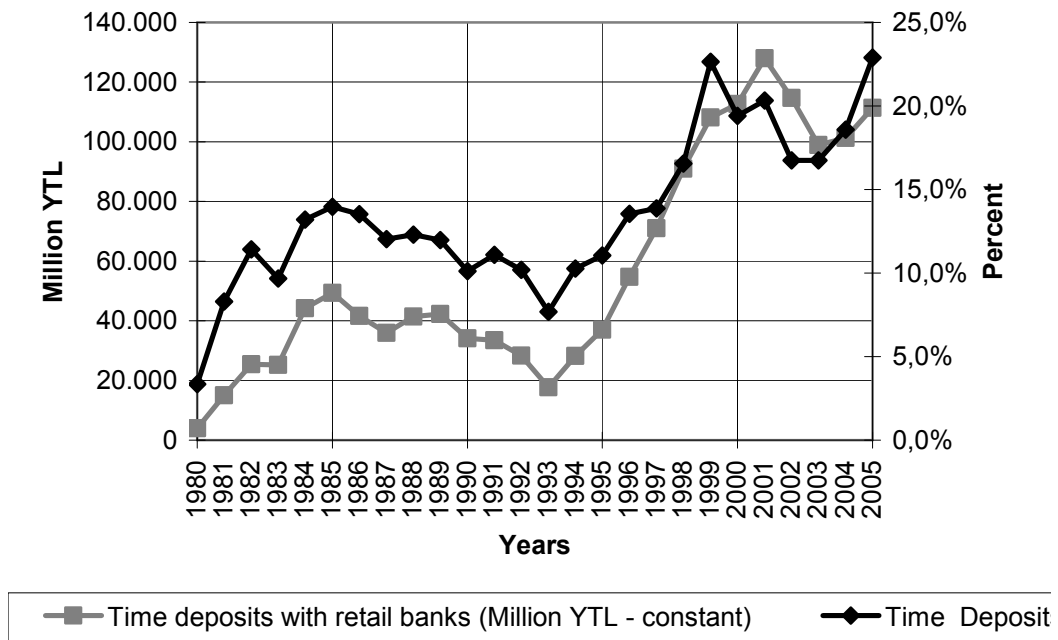
**Chart 4.11: Domestic Borrowing-Total Outstanding Debt** (Source: TÜİK, 2006)

Chart 4.12 includes the figures on interest payments made within domestic borrowing. Both the amount of interest payments and its share in GNP seem to have increased rapidly between 1992 and 2001. The value of interest payments increased from 8.600 million YTL, which is 3% of GNP, in 1992 to 145.000 million YTL, which is 23% of GNP, in 2001. This means that the amount of the money paid back by the state as interest payment for domestic debts was nearly one fourth of the total Gross National Product. This could be accepted as an indicator showing that domestic borrowing has been an alternative and essential channel of investments between 1992 and 2003. This period covers the period of decline in construction sector in the late 1990s. It should also be noted that after 2003 both of the figures started to decrease rapidly.



**Chart 4.12: Domestic Borrowing - Interest Payments** (Source: TÜİK, 2006)

Lately we have seen that especially after 1994 macro-economic conditions in Turkey forced the state to borrow from domestic sources and this led domestic actors to lend money to the state in order to gain easily from interests. In order to check this argument at this point we will refer to another figure which is indicated on chart 4.13. This chart includes the time deposits with retail banks and their share in GNP. According to this chart, 1993 emerges again as a critical turning point. The amount of money invested in retail banks increased very rapidly between 1993 and 2001. This coincides with the period within which the nominal interest rates were around 100% and the real interest rates were nearly 5% except the crisis years. Time deposits with retail banks increased from 18.000 million YTL, which is 8% of GNP, in 1993 to 128.000 million YTL, which is 20% of GNP, in 2001. The average of time deposits between 1994 and 2003 has been 85.000 million YTL which means 16% of total GNP. It is now appropriate to say that an important amount of money was invested in retail banks during the mentioned period in order to gain from high rates of interest. This shows that the most attractive channel of investment in Turkey has been the financial market during the most part of 1990s.



**Chart 4.13: Money Stock - Time Deposits** (Source: TÜİK, 2006)

Macro-economic conditions during 1990s in Turkey had negative impacts on the development of construction sector. The high rates of interest not only reduced the demand but also increased the problem of finance for the construction sector. Macro-economic conditions in this period forced the state to reduce the level of its expenditures and investment budget. This is coupled with the increasing attraction of financial markets especially the instruments of domestic borrowing. Under such circumstances productive sectors of the economy received serious problems since many people preferred to make their investments in financial markets. Batmaz and others (2006, 239) defines this situation as “replacement of a productive economy with an economy of rents and imports”.

Apart from all these issues related to macro-economics, there were some other causes behind the decline of Turkish construction sector between 1994 and 2003. An essential one of these causes has been the two serious earthquakes of 1999. As it is known lots of people died and a huge volume of building stock was demolished by the earthquakes. The recovery process and the discussions after



the earthquakes have shown that the outcomes are not natural. They were mainly related to the process of building construction in Turkey. This idea affected the construction sector very negatively. The negative image assigned to construction sector after the earthquakes decreased the demand for construction especially for housing (TCE 2004, 345; Batmaz and others 2006, 228-230).

During the next two years after the earthquakes Turkish economy faced two important crises. The relatively small crisis, which was occurred in October 2000, was followed by a big crisis on February 2001. The two crises enabled the ongoing process of the decline of construction sector. A new stabilization program designed by IMF was implemented just after the 2001 crisis. As this program strictly proposed savings on the state's expenditures public sector continued to reduce investments especially the infrastructure investments. The decline of the sector especially at 2002 and 2003 was mainly related to the new economic program and its limitations upon public sector investments.

It is necessary to mention an essential and critical issue that is discussed by Batmaz and others (2006) here. They (2006) stress the strategies adopted by big construction firms in Turkey during 1990s while the sector was facing the sharp decline. According to their research, it is possible to point out three strategies which were developed and implemented by Turkish construction firms in order to survive under crisis situation within the country. The first strategy can be defined as the switch from domestic market to international markets. Although Turkish construction firms started to work abroad at the end of 1970s their activities within international markets increased and expanded especially after 1990 (Batmaz and others 2006, 197-221). For instance the number of foreign countries within which Turkish firms are operating increased from 16 in 1980 to 47 between 1990 and 1999 and to 63 between 2000 and 2005 (Batmaz and others 2006, 205, 215). Not only the number of countries but also the monetary value of the international construction works done by Turkish firms was also increased especially after 1990.

The second strategy adopted by big construction firms has been to develop cooperation with foreign construction firms. By doing this Turkish firms not only solved their financial problems but also increased their accessibility to new and contemporary technologies (Batmaz and others 2006, 241). The last strategy

which seems crucial to us can be defined as the enlargement of the fields of operation. Turkish construction firms preferred to vary the fields within which they are investing and operating. Especially after 1990s big construction firms started to involve into the sectors like tourism, banking and finance, transport and energy (Batmaz and others 2006, 205, 245). This last strategy seems interesting when the theoretical discussions done in previous chapters are considered. *Capital switching approach* conceptualizes construction sector as a “safety valve” to which excess capital could be switched in cases of overaccumulation problem. However the last strategy of Turkish construction firms shows that construction sector or the secondary circuit may not be as safe as it thought to be.

#### 4.4. CONCLUSION

When the development process of Turkish construction sector during post-1980 period is considered several sub-periods including different trends could be distinguished. It seems appropriate to define two main periods; each of them includes 10 years. The first period which could be defined as **the period of growth covers the years between 1983 and 1993**. Construction sector has experienced an essential growth during this period. The growth has occurred rapidly between 1982 and 1988 and kept the levels reached at 1988 till 1993. The second period which could be defined as **the period of decline covers the years between 1994 and 2003**. However it should be noted that the major decline in this period has occurred after 1997. Construction sector faced a significant decline during this period. Most of the figures concerning the sector appeared to be the lowest of post-1980 period at the end of this period. So the macro-analysis in this chapter revealed that after a growth period for 10 years between 1983 and 1993 construction sector has been in a period of decline between 1994 and 2003 in Turkey.

The macro-analysis presented in this chapter also helped us to understand the main key factors and dynamics which caused both the growth and the decline. The growth of construction sector is mainly related to some certain roles performed by the state. The state starting by 1983 introduced some effective policies, instruments and incentives which encouraged the growth of construction sector. Amnesties and redevelopment rights given to squatter settlements ended up with a construction boom on the former squatter settlements mainly between

1984 and 1989. The number of construction starts in these parts of cities increased rapidly. For instance annual number of construction starts licensed according to amnesty laws in 1987 was 2.5 times more than the annual number of starts in 1984.

In addition to the redevelopment process in squatter areas foundation of Housing Development Administration and Mass Housing Fund have also contributed much to the construction boom of 1980s. The state chose to intervene directly into the production of built environment specifically into the housing sector by these two new instruments. First of all, cheap credits supplied by the fund provided an essential financial source to housing projects. Not only construction firms and cooperatives but also consumers have benefited from these credits. The increasing demand for housing was satisfied with the increasing supply of construction. Supply side of the housing market has grown as well as the demand side since the availability of sufficient finance and hence the reduction in production costs encouraged new actors to participate in the market. Construction cooperatives could be accepted as good examples at this point. The number of cooperatives and their share in total building construction increased very rapidly during 1980s. The rate of increase of the number of cooperatives has been 350% between 1980 and 1988 and their share in total building construction increased from 7% to 30% during the same period. The state contributed to the supply side as a producer as well after 1980. As construction firms and cooperatives aimed at satisfying the housing demand derived by middle and upper income groups the state developed and implemented housing projects for low income groups. For this reason, Housing Development Administration worked not only as a regulating and financing mechanism for housing sector but also as a producer within construction sector.

Restructuring of planning and urban development system in such a way to delegate planning powers to municipalities emerged as another essential factor behind the growth. With the decentralization of planning powers large construction firms and developers enjoyed the opportunity of fast and easy development of peripheral lands.

The roles of the state during 1980s were not only limited to the ones discussed above. Another crucial function of the state has been to finance the construction

sector and construction activities by infrastructure investments. The state, which hesitated to allocate resources to the production of urban built environment, changed its attitude after 1980. Public investments especially the infrastructure investments have been the main source of finance for construction sector during 1980s. The total public sector investments constituted an amount which is more than 10 percent of GNP and public sector construction investments constituted an amount which is more than 5 percent of GNP between 1980 and 1987. The increasing levels of investments done by the state solved the financial problems of construction sector and intensified the growth of it during 1980s.

As the growth of construction sector during 1980s was related to the roles which were taken by the state the process of decline during 1990s was also attributed to the change the state's attitudes and policies. The state, which actively involved in and financed the construction sector during 1980s, left these policies and became very passive in financing the sector especially after 1993. For instance the share of public investments in GNP decreased suddenly from 8% in 1993 to 5% in 1995. The discussion regarding the change of the state's roles within construction sector showed us another essential factor affecting Turkish construction sector. This factor should be defined as macro-economic conditions and monetary politics.

Turkish economy after the integration to global financial markets by financial liberalization policies implemented at 1989 has faced the problems of macro-economic instability and economic crises. Several serious economic crises occurred between 1990 and 2001. 1994, 1998, 2000 and 2001 are being known as the years of outstanding economic crises. After all these crises the state attempted to recover the economy and balance the macro-economic conditions by implementing stabilization programs. These programs without any exception forced the state to make essential savings by reducing public sector investments. Reduction on the amount of public sector investments and infrastructure investments affected construction sector in a very negative way since public sector investments has been the major source of finance for construction sector in Turkey.

Apart from the economic crises and reduction on public expenditures high interest rates have been another essential outcome of macro-economic conditions emerged after 1993. The rate of nominal interest increased from 60% in 1990 to

100% in 1994 and remained around 100% till 1998. The high rates of interest increased the cost of credits and enriched the financial problems of the producers. Under such circumstances the cost of production increased and thus the demand for construction decreased. Decline of demand is also related to high rates of interest via the increasing costs of housing credits used by the house buyers.

In addition to cost increases high rates of interest increased the attractiveness of financial market instruments. The growing demand of the state to borrow from domestic sources led most of the economic actors to invest their capital to state's bills and bonds to achieve easy gains from interests. Under such circumstances most of the sectors of the economy including mainly the construction sector faced essential and severe financial problems. Money and capital, which normally should be spent on the productive sectors of the economy, seemed to have spent for financial market instruments to benefit from high rate of returns of interest.

Apart from the economic factors and dynamics related to the state's attitudes mentioned above Turkish construction sector suffered from natural factors as well during the post-1980 period. There occurred two serious earthquakes both of which caused essential losses in 1999. An important portion of the urban fabric and large parts of cities were destroyed and damaged after the earthquakes. The damages were mainly related to the low quality of housing construction and thus a very negative image was attributed to the Turkish construction sector. One of the major outcomes of the earthquakes and their damages has been the decrease of the demand for the products of construction sector especially for housing. This decrease in the demand contributed to the ongoing decline of the sector after 1999.

So as a concluding remark it could be stated that macro-analysis on development of Turkish construction sector after 1980 indicated that a growth period during 1980s was followed by a period of decline during the late 1990s and the early 2000s. The findings that we have reached in this chapter enable us to state that the first hypothesis of this study can not be justified in the context of Turkey. We could not observe a counter-cyclical relationship between primary and secondary circuits. Instead it could be mentioned that simultaneous growth and simultaneous decline in primary and secondary circuits have occurred after 1980 in Turkey. For instance, housing construction boom of 1980s has taken place while some

primary circuit activities such as export-oriented sectors and the economy were growing. Likewise, the decline in construction activities in the late 1990s has taken place in the same period with the decline in the productive sectors of the economy. At that period substantial amount of capital was switched into financial markets and domestic borrowing instruments rather than the secondary circuit activities. Therefore it is worth mentioning that secondary circuit in Turkey can not be accepted as a “safety-valve” of the primary one. On the other hand, the macro-analysis indicated us enough evidences to justify the second hypothesis. This means that the relationship between primary and secondary circuits are highly influenced by the supportive policies and roles performed by the state. The main dynamic affecting the capital switches into the secondary circuit appeared to be the state. In other words, construction activities in Turkey have largely been dependent upon the state and the favorable conditions provided by the state. Construction sector has reached high levels of growth when the state regulated the sector by legislative and administrative progress and supplied direct and indirect finance in terms of credits, infrastructure investments and construction investments. However the growth phase stopped and turned into a decline trend after the reduction of the state’s investments and financial contribution. Macro-economic conditions and monetary politics appeared to be the factors causing the reduction of the state’s involvement. The state was forced to leave its active involvement into the sector due to the macro-economic instability, economic crises and monetary politics. The last two crises of post-1980 period were occurred at 2000 and 2001. The small crisis at 2000 and the big one at 2001 could be accepted as the final knocks on Turkish construction sector as the financial problems became more severe after them. The state preferred to increase its savings by reducing its expenditures and economic activities in order to recover the economic system after the crises. In addition to the social, economic and administrative factors a natural factor affected Turkish construction sector as well. Two big earthquakes and their effects on the urban fabric not only contributed to but also deepened the crisis of after 1999.

The last point to be mentioned here is the change of the trend of the construction sector after 2003. All the figures regarding the sector increased essentially and rapidly during 2004 and 2005. These two years seem as the initial years of a new

growth phase. We can conclude that the decline in construction sector has reached an end at 2003 and it started to grow again since that time.

All these findings of the macro-analysis enable us to investigate more closely the relationships of the state and capital within the production of built environment. It is necessary to focus on Hypotheses Set 4 and test the relevance of these hypotheses in the case of Turkey. In the following parts, we will attempt to determine the forms of state intervention and policies contributing to the growth in the production of built environment.

## CHAPTER 5

### RECENT CONSTRUCTION BOOM: The Production of Built Environment After 2002

Macro-analysis presented in the previous chapter provided us essential findings about the growth and decline trends of construction sector and the factors determining these trends during post-1980 era. In other words we now could possibly distinguish the sub-periods during which the production of built environment has either grown or declined as well as the dynamics causing that growth or decline.

Macro-analysis revealed that construction sector in Turkey has faced a period of decline between 1994 and 2003 after growing for ten years between 1983 and 1993. In addition to these two broad periods it is also clear that the trend has changed after 2003. All the figures regarding the production of built environment show signs of an essential and rapid growth starting from 2003.

Macro-analysis indicated us that the relationship between primary and secondary circuits is different than the one suggested by the mainstream arguments of *capital switching approach*. Rather than a counter-cyclical relationship we observed an autonomous relation between these circuits. Macro-analysis also revealed that the main dynamic influencing the volume of the production of built environment has been the state in terms of its policies and its involvement in the sector. It seemed us appropriate to assert that high levels of growth of 1980s were achieved under intense state intervention. The state starting from 1983 not only introduced some effective policies, instruments and incentives to encourage construction sector, but also brought new legal and institutional arrangements to facilitate capital expenditures for the production of built environment.

Similar to this correlation between increasing state intervention and growth of the construction sector is the correlation between the process of decline of 1990s and the state's roles. State, which actively involved in financing the production of built



environment during the growth phase, left these policies and became a passive viewer after 1993 due to macroeconomic instability, economic crises and monetary politics. It is necessary to mention the high rates of interest and severe earthquakes as triggering factors of the decline process.

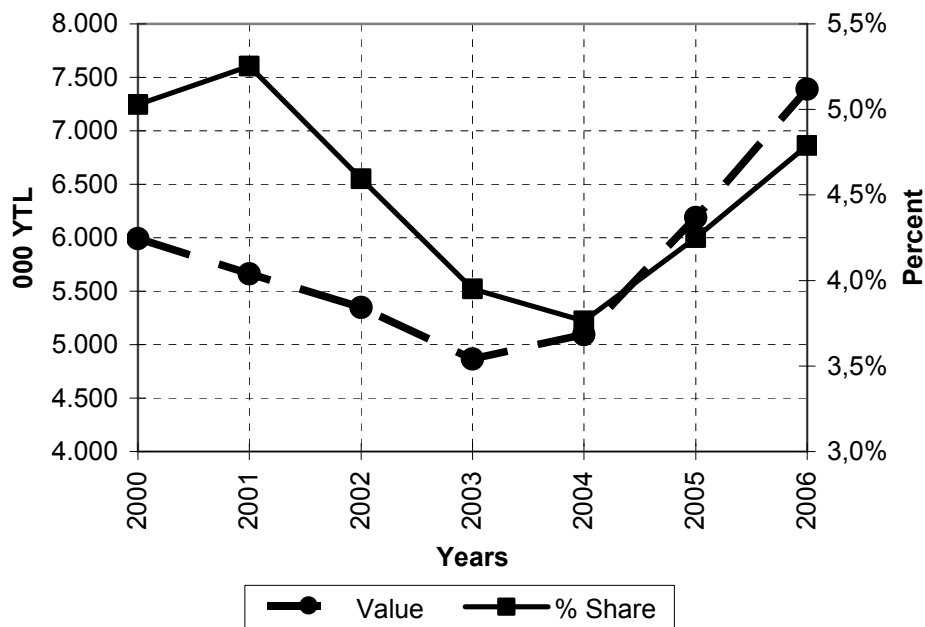
Findings derived from the macro-analysis led us to raise an essential objective for the rest of this study. That is to investigate more closely the relations of the state and capital in the production of built environment. From this point forward we would concentrate on finding out the roles performed by the state and the impacts of those roles in the growth of built environment production, specifically within a growth period. Here it is worth remembering one of the final findings of the macro-analysis in defining post-2002 period as a growth phase of the construction sector. The decline trend of the late 1990s seems to have ended by 2003 and the construction sector started to grow again since that year. The following section of this chapter includes an examination of this period in order to check the growth in quantitative and qualitative terms.

In order to carry out this examination we will benefit from various secondary data indicating the volume and level of production and activity in the construction sector. First set of these secondary data is directly on the volume and level of production in the sector such as values and shares of GNP in construction sector, numbers of construction permits, etc. On the other hand, the second set of secondary data is on the activity of the sector such as employment figures, numbers of newly established firms and companies in the sector. Moreover we will also benefit from several figures concerning foreign direct investments and their contribution to construction and real estate sectors in Turkey. The evaluation of these figures will help us to understand a distinct feature of the recent growth that is the essential contribution of foreign capital. Finally, some macro-economic figures such as rates of inflation and interests, amount of mortgage credits supplied and mortgage users, etc. will be evaluated while discussing the reasons or dynamics behind the new growth.

## 5.1. ARE WE FACING A NEW CONSTRUCTION BOOM?

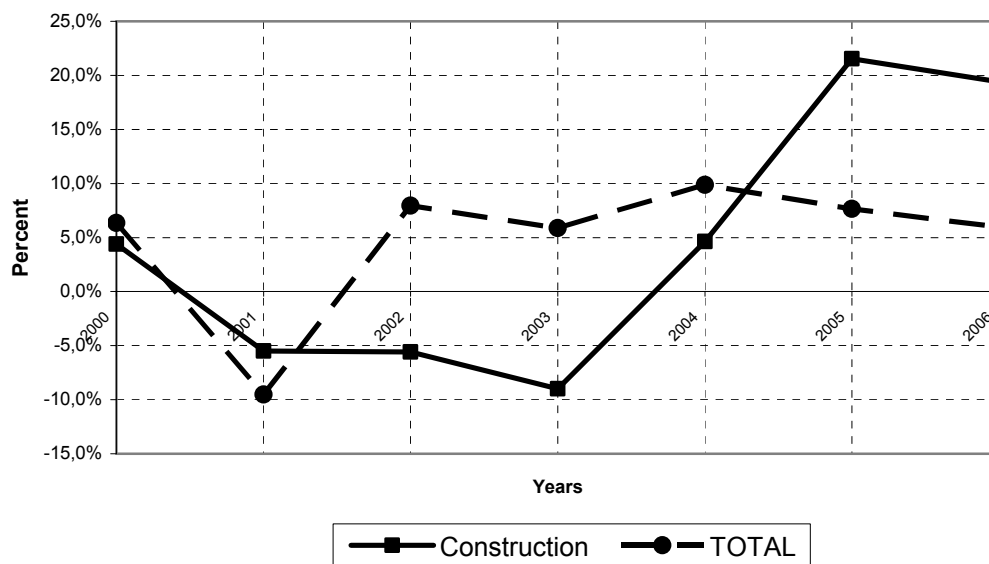
### 5.1.1. Exploring the Indicators of the Production of Built Environment

In order to answer the question posed in the former heading we will focus on the previous 6 years and check some data as indicators showing the production and activity in the construction sector. Chart 5.1 and chart 5.2 include figures on Gross National Product (GNP) regarding the construction sector. According to figures presented on the first chart it is clear that both value and share of GNP in construction sector decreased till 2003. At that year value of GNP created by construction activity was minor (less than 5 million YTL) and share of construction sector's GNP value in total GNP was 4%. However both value and share increased after 2003 and 2004 respectively. By the end of 2006, value of GNP in the construction sector reached nearly to 7.5 million YTL and the share to 4.8%. The increase in both figures is clearer on chart 5.2 which includes the growth rates.



**Chart 5.1: Value and Share of Construction Sector In GNP** (Source: TÜİK, 2006; TÜİK, 2007)

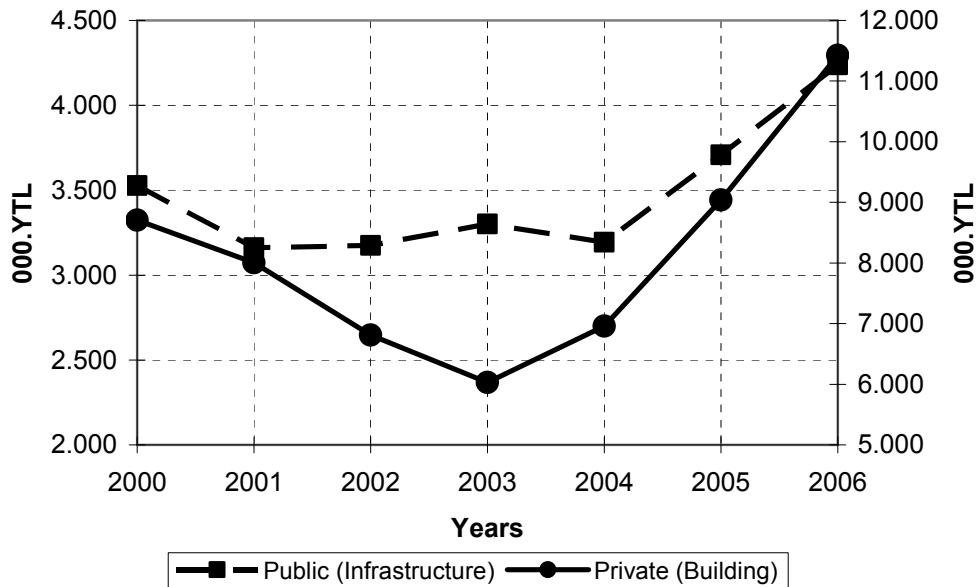
Chart 5.2 points out that the construction sector declined in 2002 and 2003 while the overall economy was growing. However it started to grow after 2003. The growth rates of construction sector were 4.6%, 21.5% and 19.4% respectively between 2004 and 2006. The figures are quite same for the first half of 2007. According to Turkish Statistical Institute, growth rate of GNP has been 5.2% and growth rate of GNP in construction sector has been 16.1% during the first 6 months of 2007. So it is possible to conclude that the sector grew steadily after 2003 and the rate of its growth has been almost tripled of the overall economy for the last 3 years.



**Chart 5.2: Growth Rate of Total GNP Value and GNP In Construction**  
(Source: TÜİK, 2006; TÜİK, 2007)

Chart 5.3 includes the figures for gross fixed capital formation by sectors. It is possible to repeat the above statements since figures here are telling almost the same story. According to this chart the year 2003 again appears to be the final year of a decline period. It seems that both building construction investments of private sector and infrastructure investments of public sector increased after 2003. The value of private sector's building investments increased from 6 million

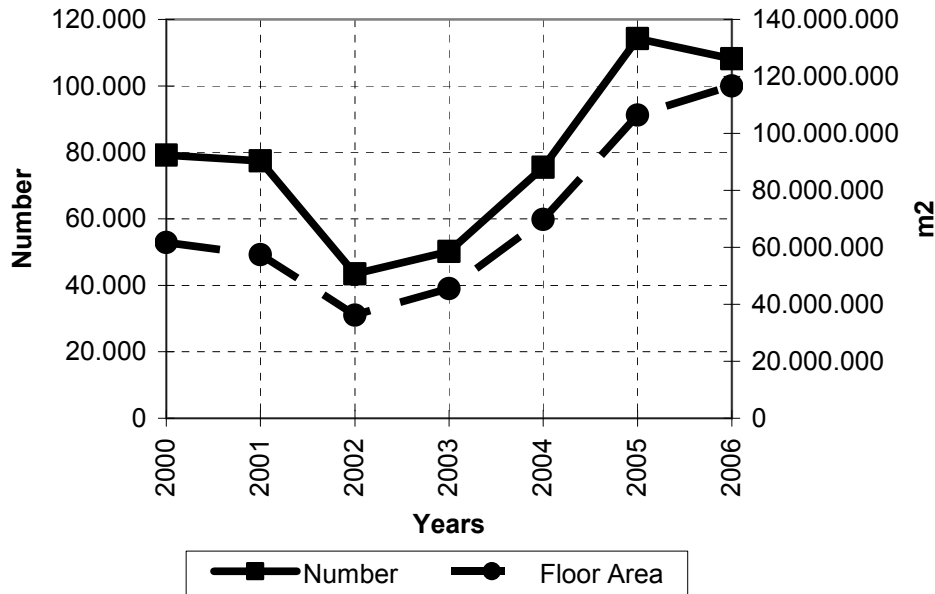
YTL in 2003 to 11.5 million YTL in 2006. Although the rate of its increase seems to be lower than private investments value of infrastructure investments by the public sector increased from 3.2 million YTL to 4.2 million YTL between 2004 and 2006.



**Chart 5.3: Construction Investments by Sectors - Gross Fixed Capital Formation** (Source: TÜİK, 2006; TÜİK, 2007)

Another important indicator for the volume and level of the production of built environment is annual construction starts. Specifically annual numbers of construction permits help us to follow the development of volume of building production. Chart 5.4 shows the annual number of construction permits and the total floor area of the permitted buildings. Figures are for all types of new buildings started to be constructed after 2000 in Turkey. According to the chart the year 2002 appears to be the final year of decline of 1990s. The remarkable increase in construction starts after that year is obvious. The number of annual permits increased approximately from 43.000 in 2002 to 110.000 in 2006 while the total floor area covered by these new buildings increased from 36 million square meters to 116 million square meters. The average annual growth rate of

construction starts has been 28% between 2003 and 2006 when number of permits is taken into consideration. The average growth rate is calculated as 35% when the figures regarding floor area is used.

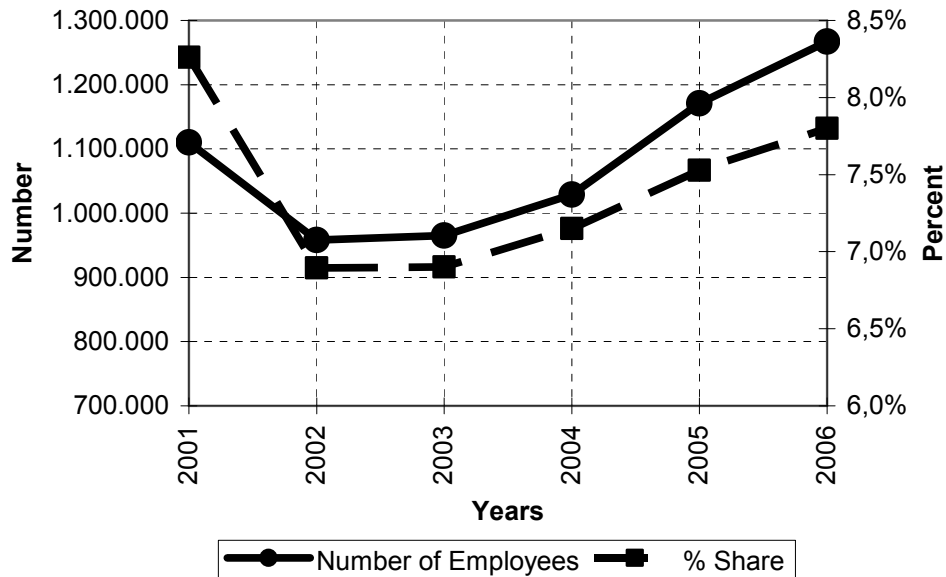


**Chart 5.4: Number and Floor Area of All Type of New Buildings** (Source: TÜİK, 2006; TÜİK, 2007)

There is a well known fact that construction sector is labor-intensive. This means that whenever a construction boom or a growth in construction activities occur number of employees in construction activities increases. For this reason employment figures should be referred in order to check the level of activity in the sector. Here we will refer to these figures regarding Turkish construction sector for post-2000 period. Chart 5.5 and chart 5.6 indicate these employment figures. While the first chart shows the number of employees in construction sector and the share of it in total the second chart displays the growth rate of employment figures both in general and in construction.

According to the first chart both number of employees in construction and its share in total employment increased after 2002. The year 2002 here again

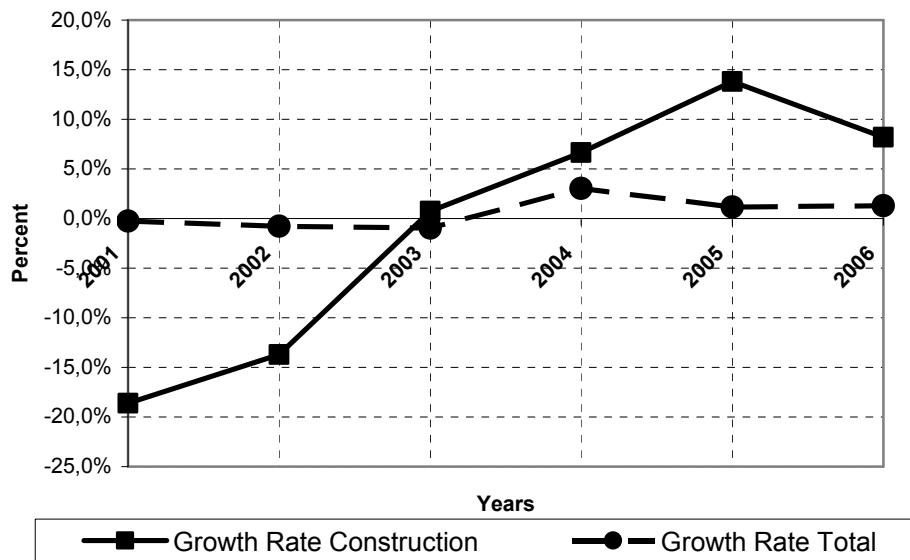
appeared to be the final year of the decline of 1990s. The number of employees in construction increased steadily between 2002 and 2006. Total number of people employed in construction increased from 958.000 in 2002 to 1.267.000 in 2006. This means that 300.000 people in total which makes 75.000 employees a year started to work in the sector during this period. The rise of employment can also be observed when the share of sector's employment in total is considered. The share of construction sector's employment in total employment increased from 6.9% in 2002 to 7.8% in 2006. Both the number of employees and its share show how big the performance of construction sector has been after 2002. This statement can also be seen on chart 5.6 below.



**Chart 5.5: Number and Share of Employment in Construction Sector**  
(Source: TÜİK, 2006; TÜİK, 2007)

According to chart 5.6 it is obvious that growth rate of employment in the construction sector has been more than growth rate of employment in general during the last four years. The growth rates of construction sector's employment were 0.7%, 6.6%, 13.8% and 8.2% respectively for the years 2003, 2004, 2005 and 2006.

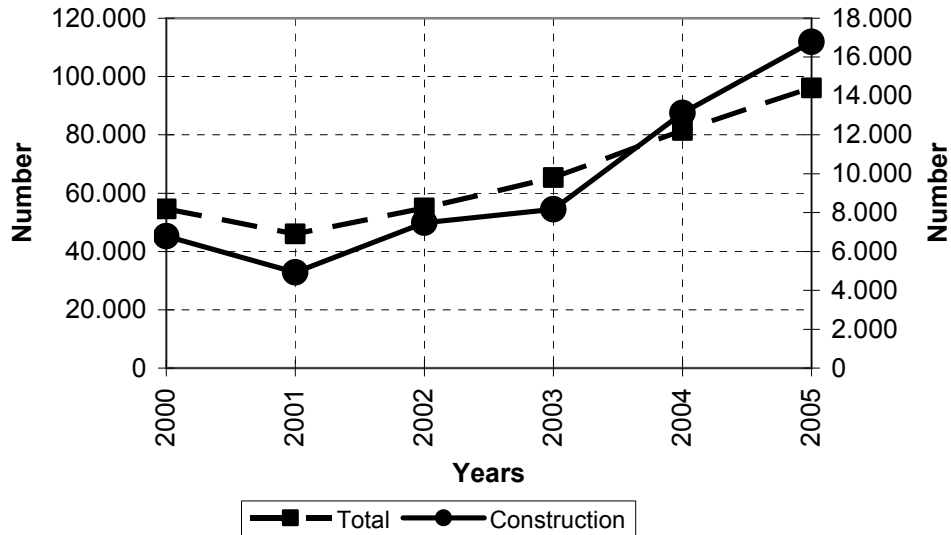
and 2006. However the growth rates of employment in general were -1.0%, 3.0%, 1.2% and 1.3% respectively for the same years. According to these figures it is possible to state that construction sector not only has grown after 2002 but also it has grown with a much higher rate than the entire economy.



**Chart 5.6: Growth Rate of Employment in Total and in Construction** (Source: TÜİK, 2006; TÜİK, 2007)

The last indicator which will be used here to check the development of construction activities is the number of newly established firms and companies both in construction sector and in total. Chart 5.7 includes the related figures for post-2000 period. It is obvious on the chart that number of newly established firms both in construction and in total increased constantly after 2001. The annual number of new firms and companies in all sectors increased from 46.000 in 2001 to 96.000 in 2005 whereas that of construction sector increased from 5.000 to 17.000 at the same years. When growth rates of number of newly established firms and companies are examined the picture again seems same. Growth rate of annual new establishments in construction is higher than the whole other sectors. For instance while the growth rates of annual establishments in all sectors were 25% and 18% respectively in 2004 and 2005 those in construction sector were

61% and 28%. In addition the average growth rates of annual establishments in all sectors and in construction has been 20% and 37% respectively between 2002 and 2005.



**Chart 5.7: Number of Newly Established Firms and Companies** (Source: TÜİK, 2006)

All the data presented and discussed in this section reveal that the decline occurred in construction sector during late 1990s has reached its bottom level in 2002 and after that year a new growth period has started. Most of the figures concerning the production of built environment have gone up since then. By using the above-mentioned data it seems us possible to conclude that we are experiencing a new construction boom in Turkey during post-2002 period.

### 5.1.2. A New Dimension of Growth: Foreign Direct Investments

A distinct feature of this recent growth is known as the contribution of foreign investments to the growth. Especially after 2002 the amount of global capital being invested in the production of built environment in Turkey increased very



rapidly. Recent growth phase of construction sector in Turkey is generally labeled as integration of Turkey to global real estate markets.

After the crisis of 2001 one of the significant developments in Turkish economy has been the increasing inflow of Foreign Direct Investments (FDIs). As seen on the table below both the amount and the share of FDIs flowed into Turkish economy increased between 2002 and 2005. 1% of total FDIs in the world in 2005 which is 9.7 million dollars were invested in Turkey while this amount was 0.18% and 1.1 million dollars in 2002.

**Table 5.1: Foreign Direct Investments** (Billion \$)

Years	World Total	Turkey	Turkey Share
2002	617,7	1,1	0,18%
2003	557,9	1,8	0,32%
2004	710,8	2,8	0,39%
2005	916,3	9,7	1,06%

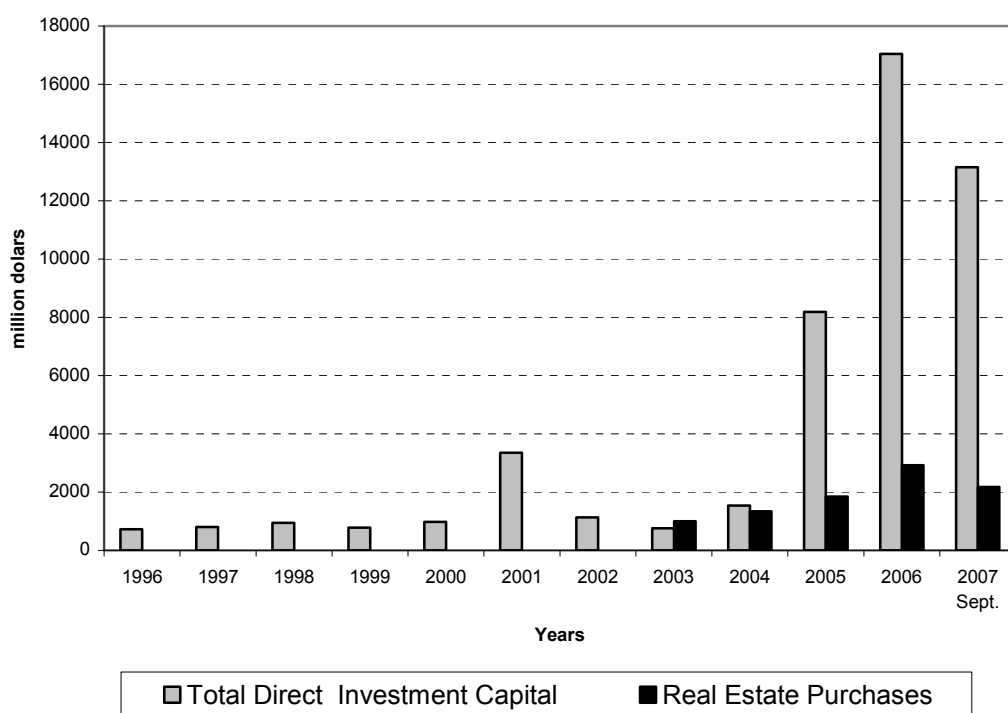
*Source: Uluslararası Doğrudan Yatırımlar 2006 Yılı Raporu*

The increasing pattern of FDIs after 2002 also had some impacts on real estate and construction sectors. Both of these sectors have been very active in attracting foreign investments since then. For the first time in the near past in Turkey FDIs in terms of real estate purchases have taken place in 2003. At that year 57% of total FDIs flowed into Turkey which was 998 million dollars were spent for direct purchases of real estates. These figures are given on the table 5.2 and chart 5.8 given below. According to the table and chart it is clear that not only total FDIs flowed into Turkey but also real estate purchases were increased remarkably after 2001. However the golden years for FDIs in the near past of Turkish economy were 2005, 2006 and 2007.

**Table 5.2: Foreign Direct Investment Inflows** (Actual Inflows-Million \$)

Years	Total Direct Investment	Total Direct Investment Capital	Real Estate Purchases
1996	722	722	0
1997	805	805	0
1998	940	940	0
1999	783	783	0
2000	982	982	0
2001	3.352	3.352	0
2002	1.133	1.133	0
2003	1.752	754	998
2004	2.885	1.542	1.343
2005	10.029	8.188	1.841
2006	19.968	17.046	2.922
2007 Sept.	15.334	13.156	2.178

Source: Turkish Undersecretariat of Treasury



**Chart 5.8: Foreign Direct Investment Inflows** (Source: Turkish Undersecretariat of Treasury)

The total amount of foreign corporate bodies acquired property in Turkey was 35 by the end of 2004. The total amount of their properties was 305 and total floor area of those properties was 2.850.565 square meters by that year. However 162 foreign corporate bodies gained 1164 properties covering nearly 7 million square meters only in 2005. This means that figures regarding real estate purchases of foreign corporate bodies almost tripled in one year. When real persons are taken into account it is seen that 41.275 foreign people gained 36.098 different properties covering slightly more than 15 million square meters by the end of 2004. The annual amount of foreign property buyers only in 2005 was 7.209. They bought 5.937 different properties all of which covers 3.5 million square meters floor area (Uluslararası Doğrudan Yatırımlar 2005 Yılı Raporu, 15). These figures also show the growing interest of foreigners in Turkish real estate markets.

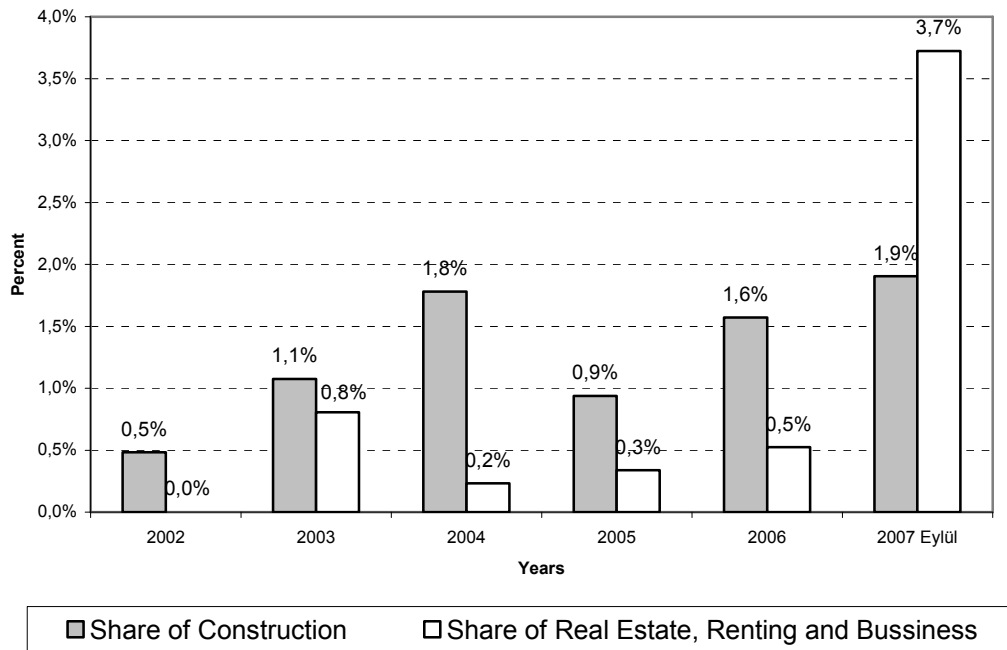
Apart from direct real estate purchases construction sector has also been an active and attractive field of FDIs after 2002. Table 5.3 and chart 5.9 include the related figures on distribution of FDIs by some economic sectors. The table indicates that total amount of FDIs rose from 622 million dollars in 2002 to 17.695 million dollars in 2006. In addition 12.921 million dollars were achieved during the first 9 months in 2007. Figures show that construction and real estate sectors have performed better. Foreign construction investments rose from 3 million dollars in 2002 to 278 million dollars in 2006 while that of real estate sector increased from 6 million in 2003 to 481 million by September 2007. This means that growth rates of FDIs in both construction and real estate sectors were higher than the growth rate of total FDIs.

**Table 5.3: Distribution of Foreign Direct Investment by Sectors** (Million \$)

	Total			Real Estate Renting
Years	Investment	Manufacturing	Construction	and Business
2002	622	110	3	0
2003	745	448	8	6
2004	1.291	214	23	3
2005	8.538	788	80	29
2006	17.695	1.868	278	93
2007 Sept.	12.921	2.810	246	481

*Source: Turkish Undersecretariat of Treasury*

This sort of a rising trend in these sectors resulted in an increase in their shares within total FDIs. Chart 5.9 includes these figures. The share of foreign construction investments in total investments was 0.5% in 2002 whereas it increased to 2% by September 2007. A similar assessment can also be done in case of real estate sector. Its share in total investments increased from 0.8% in 2003 to 3.7% in September 2007.



**Chart 5.9: Distribution of Foreign Direct Investment by Sectors - Percentage Shares** (Source: Turkish Undersecretariat of Treasury)

Up to now the monetary figures of FDIs were argued. However there is also another set of data about FDIs that is the annual and total numbers of newly established companies with international capital by sectors. Table 5.4 given below includes numbers of companies with international capital by some sectors and their total amounts by 1999 and 2007. Total number of foreign companies by 1999 in Turkey was 4.141. However as a result of the increase in the amount of foreign companies established between 2000 and 2007 the total number rose

from 4.141 to 17.756. In other words, the number of foreign companies operating in Turkey increased more than 300% during the last 8 years.

Number of foreign construction companies rose from 147 in 1999 to 1.533 in 2007 which means nearly 11 times more than the initial amount. This picture is almost same when foreign real estate companies are examined. Their numbers were also increased 10 times during the same period. Total number of foreign real estate companies rose from 241 in 1999 to 2.624 in 2007. As a result of the latter two findings it is possible to say that 4.157 companies with international capital are operating within the construction and real estate sectors.

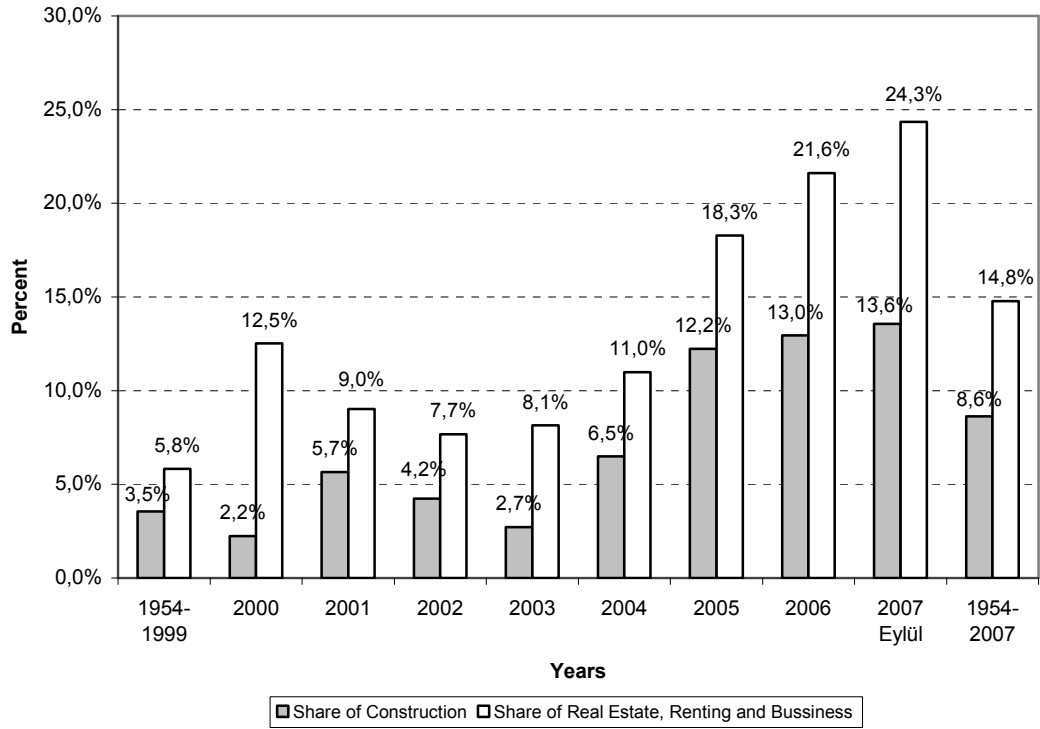
**Table 5.4: Distribution of Companies with International Capital by Sectors**

<b>Years</b>	<b>Total Number of Companies</b>	<b>Manufacturing</b>	<b>Construction</b>	<b>Real Estate Renting and Business</b>
<b>1954-1999</b>	<b>4.141</b>	<b>1.158</b>	<b>147</b>	<b>241</b>
2000	447	96	10	56
2001	477	93	27	43
2002	495	80	21	38
2003	1.105	267	30	90
2004	2.095	369	136	230
2005	2.845	456	348	520
2006	3.350	459	434	724
2007 Sept.	2.801	388	380	682
<b>1954-2007</b>	<b>17.756</b>	<b>3.366</b>	<b>1.533</b>	<b>2.624</b>

*Source: Turkish Undersecretariat of Treasury*

Similar assessments could be done when the shares of both foreign construction and real estate companies in total foreign companies are considered. As seen on chart 5.10 below shares of newly established foreign construction and real estate companies in total companies increased remarkably during the period between 2002 and 2007. For instance nearly 13% of all new foreign companies were construction companies and nearly 22% of all new foreign companies were real estate companies in 2006 and 2007. The share of foreign construction and real

estate companies in 1999 was 3.5% and 5.8% respectively whereas they were 8.6% and 14.8% in 2007.



**Chart 5.10: Distribution of Companies with International Capital By Sectors - Percentatge Share** (Source: Turkish Undersecretariat of Treasury)

All the data presented above clearly figure out the recent rapid increase of foreign direct investment inflows either in terms of direct capital flows or in terms of foreign company establishments. One of the main reasons behind the rapid increase of foreign companies is the enactment of Direct Foreign Investments Law (No. 4875). This law was enacted on June 2003 in order to encourage and promote the establishment of foreign companies by the help of some incentives, means and facilities (Uluslararası Doğrudan Yatırımlar 2005 Yılı Raporu, 22). So the recent expansion of foreign companies is being associated with the adoption of this law as well as the arrangements it includes.

As a concluding remark it could be stated that global capital and foreign investments provided a substantial contribution to the recent growth in construction activities in Turkey.

### **5.1.3. Factors Causing the Growth**

In this section factors stimulating the growth in the production of built environment after 2002 are going to be discussed. In other words, we will deal with the reasons or dynamics behind the recent construction boom. Several factors could be indicated here. However we prefer to group and argue them under two different headings. In the first group there exist factors or reasons related with the macro-economic situation and conditions which mainly shapes the policy preferences of the state. The second group covers the issues directly regarding urban built environment and the processes of its production.

#### **5.1.3.1. Macro-Economic Situation and Conditions**

Turkish economy has entered into a new phase by the year 1980. This new phase is characterized by an export-oriented growth model which aims to open up the economy to international markets both commercially and financially. There are different and distinct sub-periods each of which differs in accordance to its macro-economic policies and orientation within this whole phase. Post-2000 period is generally accepted as one of those distinct sub-periods. Before discussing the features of this sub-period it is now necessary to review some essential points regarding the economic policies and preferences of post-1980 era as well as their progress.

The general economic orientation after 1980 has been to integrate Turkish economy to the international one via some neo-liberal policies, strategies and instruments. This neo-liberal policies and orientation, in time, has made the dynamics of international or global markets as the primary determinant of economic decisions in Turkey (Yeldan 2001b, 197). Roles and functions of the state concerning the economy were redesigned as well during this neo-liberal restructuring process. State has given only the regulatory functions rather than a position as a producer or investor within the economic domain. In more concrete terms the main function of the state has been to implement the necessary policies

and strategies which facilitate the gathering of economic surplus in the hands of capitalist class in order to sustain the accumulation process after 1980 in Turkey (Yeldan 2001b, 198).

Various forms of these policies and strategies aiming to achieve the progress mentioned above were firmly adopted between 1980 and 2000, the major forms of which are observed as follows: lowering the labour costs, lowering the actual value of Turkish currency, implementing the regime of flexible rate of foreign exchange, provision of generous export incentives, regulating the systems of tax and domestic borrowing, lowering the prices of intermediary goods produced by public sector (Yeldan 2001a, 25-26; Yeldan 2001b, 198). The first four of these policies were mainly adopted between 1980 and 1989 before financial integration strategy was executed. Just after the liberalization of domestic financial markets, the state then mainly adopted policies regarding foreign and domestic borrowing, low prices of intermediary goods, indirect taxes rather than direct ones in order to support capitalists (Yeldan 2001a, 58-61). Both the results and costs of these policies and strategies became obvious by the year 2000. In other words the basic features gained by the Turkish economy during 1990s such as macro-economic imbalance and instability, frequent financial crises, high rates of inflations and high rates of actual interests became clear and visible when the new millennium started (Yeldan 2001b, 198).

Seeing that it was almost impossible to sustain such negative features a new macro-economic program named as “a structural reform program for reducing the inflation” were adopted by the year 2000. In other words there occurred an essential change on the macro-economic policies and strategies concerning Turkish economy at that year. This change in macro-economic policies leads us to define post-2000 period as a distinct sub-period in recent economic history in Turkey. According to an alternative point of view this new sub-period actually constitutes the last stage of the neo-liberal integration process started in 1980. The general goal of this recent stage is defined as the removal of all sorts of barriers and controls exist in Turkey upon in and outflows of goods, services, investments and capital (Bağımsız Sosyal Bilimciler-İktisat Grubu 2001, 3).

Ekzen (2006, 88) asserts that the recent structural reform program aimed at reducing the rate of inflation rapidly (especially below 10%), at reducing the need



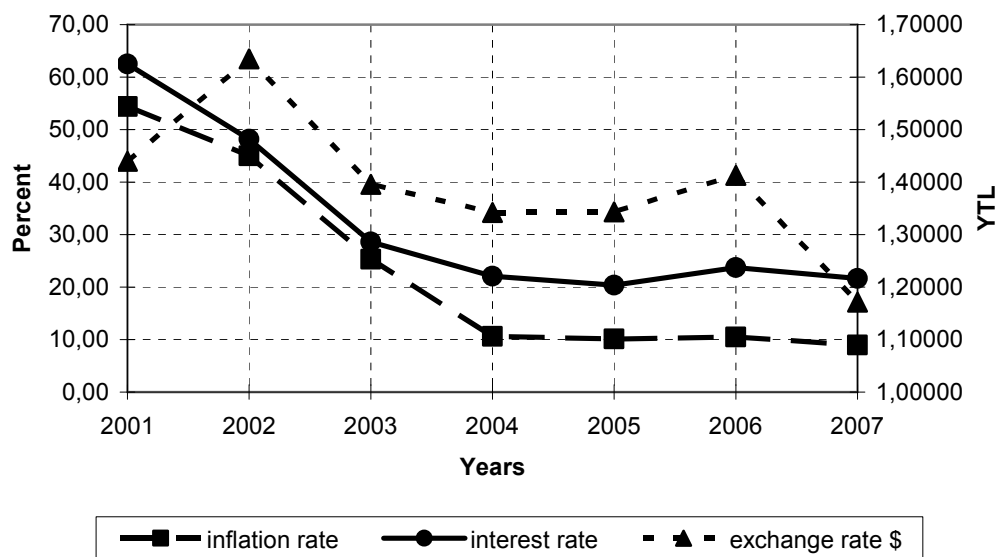
for domestic borrowing by exercising a control in public expenditures and at achieving a sustainable economic growth. The economic growth in the program was supposed to be achieved through a growth in the volume of trade mainly derived from foreign demand. In addition the growth supposed to be financed mainly by international and global money capital via foreign borrowing (Ekzen 2006, 88-90; Yeldan 2001b, 202). All in all, by these new macro-economic policies it is expected to reach an economic growth based on foreign trade and financed by international capital under low rates of inflation and interest and to reduce the need for domestic borrowing.

After the adoption of this new structural reform program, two serious economic crises occurred in 2000 and 2001 respectively. The major impact of these crises on structural reform program has been the modifications and adjustments made. The modified form of the program was declared under the name of “The Programme for Transition to a Strong Economy” (PTSE) and initiated by the second half of 2001 (Bağımsız Sosyal Bilimciler-İktisat Grubu 2001, 3). The basic goals and the strategies set in structural reform program remained the same in PTSE as well. Therefore the major macro-economic goals in Turkey after 2001 have been to reduce both the stock of domestic debts and the need for domestic borrowing by substituting it with international financial capital inflows. Low rate of foreign exchange coupled with relatively high rate of real interest were supposed to guarantee and promote the foreign financial capital inflows. In other words PTSE included policies and strategies, which suggest the state to go after a speculative economic growth originating from the increasing volume of trade and financing by borrowing from various foreign sources (Bağımsız Sosyal Bilimciler-İktisat Grubu 2006, 83).

Yeldan (2001b) indicated clearly the negative results and possible costs of this program and its macro-economic policies, in advance. According to him (2001b, 203) the new policies and structural reforms are far from restoring the fragile structure of Turkish economy. Instead it would lead capitalists to stay away from productive sectors like industry and encourage them to invest into some other speculative fields. In addition he stresses that the program is based on the idea to increase public sector’s revenues by privatizing some public assets and properties rather than bringing structural reforms on tax and expenditure systems

of the state to restore public budget deficiencies and imbalances. According to one of Yeldan's (2001b, 2003) considerable findings, the real motivation behind the PTSE is to provide new and fresh opportunities of investments to international capital searching for speculative gains. In other words PTSE was designed to open up the national economy and its publicly owned resources to the circulation process of global capital.

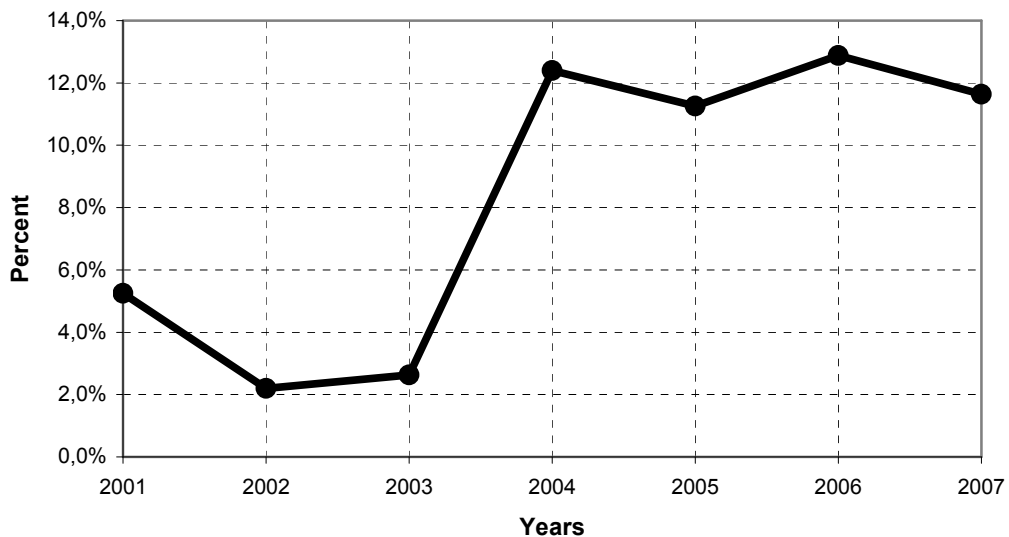
It can be asserted that not only the insights, goals and expectations of the recent macro-economic programs but also the findings and presumptions mentioned above are largely realized since when PTSE and its predecessor were implemented. Chart 5.11 displays the rates of inflation and interests as well as the average exchange rate for US Dollars between 2001 and 2007. The decreases in both inflation and interest rates are remarkable. The interest rate decreased from 62.5 % in 2001 to nearly 20% in a short period of time and remained at that level during the last three or four years. Similarly, the rate of inflation decreased from 55 % in 2001 to almost 10 % in 2004. It has been around 10 % since then. It is also clear on the chart that there occurred an explicit decline in exchange rate for US Dollars. Exchange rate for US dollars which exceeded 1.6 YTL in 2002 decreased to 1.2 YTL in 2007. This indicates that the goals of reducing rates of inflation and foreign exchange were achieved in a very short period of time.



**Chart 5.11: Rates of Monetary Indicators** (Source: Turkish Central Bank)

Chart 5.11 also indicates that the other goal of the program, which is about keeping the rate of real interest relatively high, was also achieved. It is clearly seen that the difference between rate of interest and rate of inflation increased after 2003. The average amount of their difference has been nearly 10% during the last four years.

Chart 5.12, which is given below, indicates the figures on real interest rates<sup>5</sup>. As it is obvious, starting from 2002 the rates of real interest increased very rapidly. Real interest rate increased from 2.2% in 2002 to 12.4% in 2004. This remarkable increase continued since then. Rates of real interest for 2006 and 2007 have been 12.9% and 11.6% respectively. The increasing trend in the rate of real interest has a single and a mere explanation. That is to provide an attractive and generous financial market to international finance capital by keeping the exchange rate continually lower and by satisfying a real interest rate which is 10% higher than the inflation rate. It is clear that this has been provided very successfully after 2001 in Turkey.



**Chart 5.12: Rate of Real Interest**

<sup>5</sup> Real interest rates are calculated by using the following formula:  $r = (1+i) / (1+f) - 1$  where (i) is the rate of nominal interest and (f) is the rate of inflation.

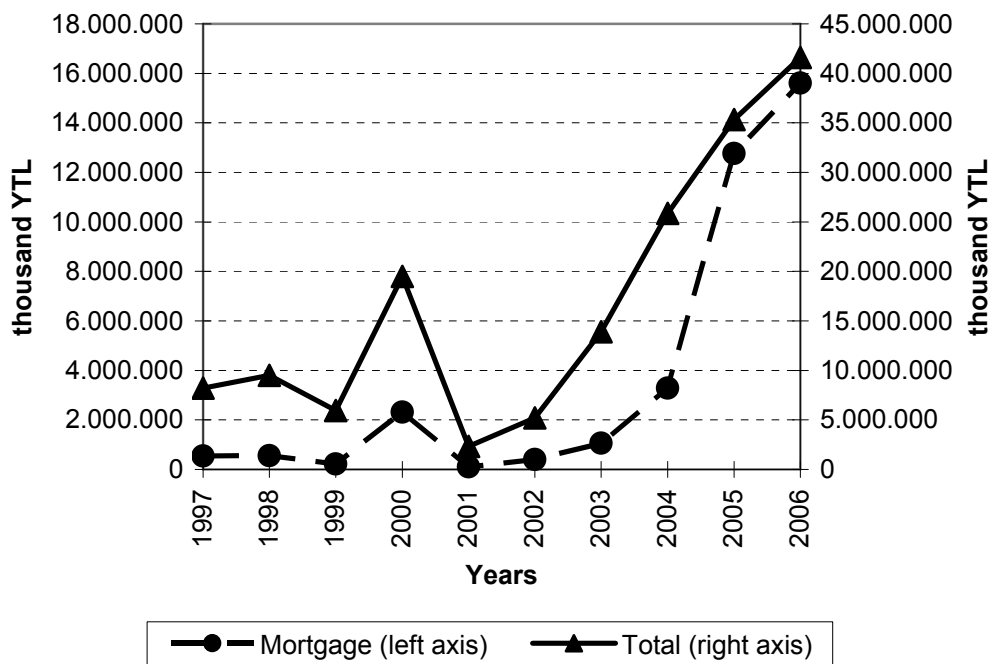
It is widely accepted that huge amount of foreign capital flowed into Turkey after 2001 due to the extraordinary financial conditions occurred globally and to the policy based on cheap foreign exchange and high rate of real interest (Bağımsız Sosyal Bilimciler-İktisat Grubu 2001, 85). The economy achieved high growth rates under the availability of such abundant finance capital during the same period. However the critical point here is the components and quality of this recent economic growth. In other words it is necessary to discuss how and in what fields this foreign finance capital is spent or invested. The first answer that should be given to these latter mentioned questions is in no doubt that import-oriented foreign trade. A consensus seems to be satisfied on this answer within the public opinion and economy literature.

The main component of the economic growth achieved in recent years is accepted as trade but mainly the foreign trade. Figures on both exports and imports increased essentially and they appeared to be the main components of this recent growth. While imports increased at an annual average of 20% between 2003 and 2005 that of exports had been 9.4% during the same years. The total volume of foreign trade increased 120% between 2003 and 2006 when compared to the period between 1999 and 2002. However foreign trade deficit has also grown during the same years. The total value of foreign trade deficit rose from 22.1 billion dollars in 2003 to 50 billion dollars in 2006 which means an increase of 126%. Figures of foreign trade deficits indicate how big has been the contribution of imports to the economic growth recently. Total value of imports rose from 69.3 billion dollars in 2003 to 418.6 billion dollars in 2006. Financial background of the recent economic growth can easily be understood when the figures on foreign debts are analyzed. The total stock of external debts reached almost 200 billion dollars in 2006 whereas it was 118 billion dollars in 2000. Total stock of private sector's external debts increased from 55.7 billion dollars in 2000 to 110.9 billion dollars in 2006. (Ekzen 2006, 88-90). All these figures clearly put forward that recent economic growth was mainly financed by external borrowing.

There is another answer for the question examining the major components of the recent economic growth. In other words foreign trade has not been the only field where the recent foreign finance capital flowed into Turkey was invested. As argued in the previous section construction sector has performed well and has

undergone into a new growth period after 2002. The growth in the production of built environment appeared to be much higher than the general economic growth. So it is obvious that one of the major components of the recent growth has been the construction sector. This helps us to conclude that substantial amount of external financial capital was invested in Turkish financial markets to gain from “stock exchange-interest rate-exchange rate triangle” (Bağımsız Sosyal Bilimciler-İktisat Grubu 2005, 44) and this capital is used to finance the activities and investments within foreign trade and building construction.

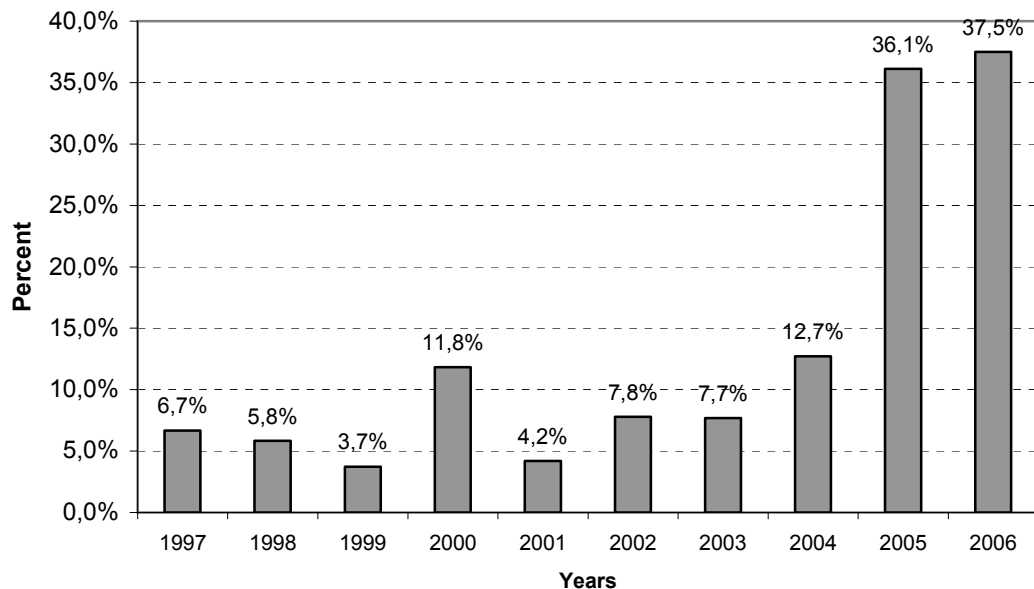
The relationship between the increasing flow of foreign money capital and the growth in construction activities could be observed on the development of mortgages after 2001 in Turkey. It seems to us that availability of high amounts of foreign capital together with low rates of interest and inflation have increased the activity in financial markets, especially in mortgage markets.



**Chart 5.13: Amount of Consumer Credits Supplied - at 1994 prices** (Source: The Banks Association of Turkey)

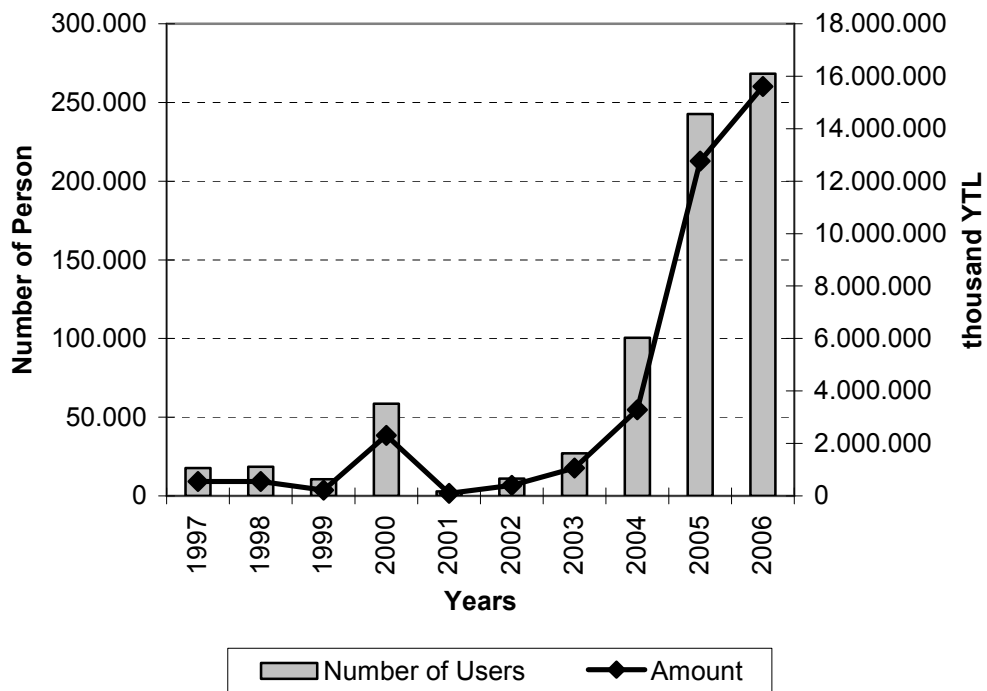
Chart 5.13 indicates the amounts of total consumer credits and mortgages supplied between 1997 and 2006. The increases in the supply of both types of credits after 2001 are remarkable. Total amount of consumer credits supplied increased from 2.3 billion YTL in 2001 to 41.6 billion YTL in 2006. The amount of mortgages increased from 97.8 million YTL to 15.6 billion YTL during the same period. This means that while the total consumer credits supplied has grown 18 times, mortgages have grown nearly 160 times between 2001 and 2006. In other words during the last 5 years mortgages have grown almost 10 times more than the total consumer credits.

The tremendous increase in mortgages when compared to total consumer credits is also supported by the figures on the following chart. Chart 5.14 indicates the shares of mortgages in total consumer credits between 1997 and 2006. It is clear that following the crises of 2001, share of mortgages in total consumer credits increased crucially. The share of mortgages increased from 4.2% in 2001 to 12.7% in 2004. Moreover increases in the share of mortgages in 2005 and 2006 are remarkable. 36% of total consumer credits in 2005 and 37.5% in 2006 have been the mortgages supplied.



**Chart 5.14: Share of Mortgages in Total Consumer Credits** (Source: The Banks Association of Turkey)

Chart 5.15 indicates the figures on number of mortgages users and amount of mortgages supplied. Rapid decreases in both figures between 2000 and 2001 are related to the crises occurred 2001. However it is appropriate to state that following the crises mortgage markets have recovered rapidly. The amount of mortgages supplied increased 160 times between 2001 and 2006. The numbers of mortgage users have also increased during the same period. Total number of users increased from 2.911 in 2001 to 268.274 in 2006. This means that the number of mortgage users in Turkey has grown nearly 90 times between 2001 and 2006.



**Chart 5.15: Amount of Mortgage Credits and Number of Mortgage Users**  
(Source: The Banks Association of Turkey)

The development of mortgage markets encouraged the government to introduce new regulations and a legislation concerning the mortgage system in Turkey. It is a well-known fact that a mortgage system similar to the ones in the United States

and in most of the European countries was lacking for a long time in Turkey. Under the absence of a mortgage system, which provides long-term loans with low interest rates, house buyers were benefiting from housing credits supplied by retail banks mainly on shorter contracts and with higher rates of interest. However the government attempted to establish a wider and a comprehensive mortgage system by 2005. In this regard, “Law on Amendments to Several Laws Concerning the Mortgage System” (No. 5582) was enacted at 21.02.2007. Since then the legal and institutional basis of a mortgage system exist. However it should be mentioned that the applications on the basis of this law and of the new system have been very limited since the interest rates for housing credits have risen during the last several years.

The figures and discussion on the development of mortgages and a mortgage system enable us to conclude that an essential factor behind the recent growth in construction activities has been the increase in the supply and usage of mortgages mainly due to the availability of foreign capital. It is appropriate to state that increasing activity in mortgage markets ended up with increasing demand and activity in construction activities and real estate markets.

In the light of the foregoing discussions it can be concluded that financial liberalization of Turkish economy which started in 1989 and reshaped by the policies of 2000 and 2001 sustained an ongoing trend of 1990s that is the falling rates of investments in productive fields and real sectors. However after 2001 the alternative address for speculative investments seems changed. Instead of investing the money capital on domestic borrowing instruments like state bonds and bills like in 1990s capital owners seem to have directed their attention to building construction and real estate investments after 2002. The late 1990s were the golden ages for security markets and investments due to high rates of inflation and interest as well as the increasing need of the state for domestic borrowing (Bağımsız Sosyal Bilimciler-İktisat Grubu 2001, 5). Whereas post-2000 period especially the period after 2002 appeared to be the golden ages for import-oriented activities, foreign trade and building construction due to the policies and strategies bringing low exchange rates, relatively high rates of real interest and falling amounts of domestic borrowing.



After all, a crucial point should be mentioned here. The increasing popularity of construction activities and the growth in construction sector are not only related with the macroeconomic conditions discussed previously. It would be insufficient to grasp this issue in such a way. The recent construction boom in Turkey should also be related with some intrinsic dynamics and factors specific to urban built environment and the processes of its production.

#### 5.1.3.2. Recent Boom and Factors Concerning Urban Built Environment

Main factor causing the decline in construction activities during the second half of 1990s is determined as the macro-economic instability, economic crises and the state's withdrawal. The state in order to solve these macro-economic problems not only reduced the amount of public built and infrastructure investments but also accepted domestic borrowing as the main way of financing public expenditures. These two strategies had serious impacts on the construction sector. First of all, high rates of inflation and interest triggered by domestic borrowing not only increased the production costs in construction sector but also bring the problems of falling rates of profits and demand. Second, the investments began to be oriented mainly to speculative fields like security markets. However another factor seems to have deepened the negative impacts of the macro-economic conditions. The two severe earthquakes of 1999 triggered the ongoing decline in the production of built environment. In other words one of the major impacts of the earthquakes of 1999 has been the deepening and sustaining the ongoing decline in construction activities. For instance the earthquakes and their impacts on construction sector is discussed and examined under the heading of "shock" in the research on the history of contractors in Turkey (Batmaz vd. 2006, 222).

As both of the earthquakes brought severe losses and damages a search for finding who has the major responsibility was initiated both by the media and the related sections of the society. Short after the earthquakes the idea that the major responsibility for the losses belongs to the contractors and construction firms producing bad quality buildings was accepted widely. In other words as most of the discussions about the losses were made around construction quality it has been the contractors who the society blamed most (Batmaz vd. 2006, 223). This brought about a loss of trust in the existing buildings in urban areas in Turkey as well as the construction sector. It is widely accepted that the corporate images

within the sector has undergone a general deformation. The actual consequences of all these has been the decrease of the demand for sector's production and the deepening of the ongoing crisis within the sector. Batmaz vd. (2006, 223) emphasizes that real estate sector was affected very badly and the paranoia and fear of earthquake has become widespread in İstanbul even quite after the shock situation ended.

The impact of the earthquakes was not only limited to the loss of trust and deformation of images of the construction sector. Following the two earthquakes of 1999 several changes were made in planning and urban development legislations and in their implementation. The major aim of these changes has been to review and renew the planning processes and development controls by taking the concepts like natural hazards, mitigation, disaster management, etc. into consideration. Most of these changes were made by the circulars prepared and sent by the Ministry of Public Works and Settlement (MPWS).

A week after the first earthquake of 1999 MPWS have prepared and sent the first circular<sup>6</sup> in this process. With this circular it was declared that preparation and approval of all kinds of development plans and issuing of all kinds of construction permits and licenses were suspended in certain provinces which were damaged by the earthquake (Can 2001, 41). In other words, following the first earthquake all the development and construction activities were stopped by MPWS in some provinces including the big metropolitan cities like İstanbul, Bursa and Eskişehir.

Later, two other circulars concerning the provinces affected by the earthquake were sent on September<sup>7</sup> and October<sup>8</sup>. These circulars ordered that current development plans had to be reviewed in the light of the necessary data and information about disaster risks and had to be renewed, if deemed necessary. It was clearly declared that development plans which were prepared without being amenable to geological and geotechnical surveys and development decisions which were given for the areas having high disaster risks had to be revoked. Moreover with these circulars MPWS advised the related municipalities to reduce

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<sup>6</sup> The Circular (No. 9386) sent at 23.08.1999.

<sup>7</sup> The Circular (No. 10197) sent at 08.09.1999.

<sup>8</sup> The Circular (No. 12297) sent at 15.10.1999

development densities by lowering the proposed building heights in current development plans (Can 2001, 41).

Besides MPWS informed the related local institutions to review and renew the construction permits and licenses in accordance with the decisions and conditions of the renewed development plans. In this context it was declared that except the completed buildings permitted in accordance with the old plans all the construction permits should be renewed in the light of new development decisions and conditions (Can 2001, 48-49).

These new arrangements concerning the planning processes and urban development controls in some parts of the country had some negative impacts on construction activities. The rigid and tight planning controls and development conditions kept developers and contractors away from new investments and construction activities. Therefore it seems appropriate to state that legal arrangements which were made after earthquakes of 1999 have essentially contributed to the decline of construction activities in Turkey during the initial years of 2000s.

All in all, construction sector has experienced decline period between 1994 and 2003 due to some macro-economic conditions such as instability, financial crises, popularity of speculative investments and to some natural conditions like the severity of disaster losses. So it can be asserted that at the end of this 10 years decline period urban built environment had some conditions to provide high profits to new investments such as increasing demand for built environment and devaluation of properties and assets.

It is known that there occurred devaluation within the property markets and on real assets especially in the metropolitan cities throughout the decline period. Yirmibeşoğlu (2005, 232) stresses that earthquakes had some serious and certain negative impacts on residential and property markets. According to her, along this process not only the demand for properties was decreased but also the prices of properties were devalued. As the devaluation process decreased the costs of production and costs of lands the production of urban built environment as an economic activity started to provide high rates of profits by the year 2003. Another factor supporting this situation and climate was the decreasing rates of interest

and exchange (Chart 5.11). Decrease in the rates of interest and exchange reduced the popularity and attractiveness of security markets and speculative financial instruments. Besides, decrease in rates of interest also reduced the cost of producer credits and consumer credits such as mortgages.

Moreover Turkey is still experiencing high rates of population increase both in general and particularly in urban areas. In such cases overaccumulation of demand for housing and workplaces should be expected after long periods of decline periods in the production of urban built environment. Consequently, devaluation of properties coupled with overaccumulation of demand due to the decline of late 1990s has made the real estate sector as an attractive and potential domain providing high profits for new investments.

In addition to the factors regarding urban built environment discussed above there is also another factor causing the recent boom. That is the changing attitude and policies of the state towards the production of urban built environment. It could be mentioned that by the year 2003 the passive position of the state within the construction sector was substituted by essential and intense interventions as well as various forms of policies and supports. After discussing the foregoing issues, the hypotheses and research questions that will be deal with in the following chapter should be mentioned in the concluding section of this chapter.

## **5.2. CONCLUSION**

Both the macro-analysis presented in Chapter 4 and the discussions in this chapter revealed that the construction sector has generally been dependent upon macro-economic conditions, the state and the favorable conditions provided by the state after 1980 in Turkey. In other words, it was observed that there is a correlation and coordination between public intervention and private built investments in Turkey. Public intervention here means not only public infrastructure and built investments but also supportive regulations and arrangements made by the state. Therefore in the light of these findings it seems appropriate to investigate the relationships between the state and the capital (public and private sectors) especially in terms of the roles, actions and policies performed by the state by focusing on recent construction boom (post-2002 period). Departing from these facts and intention we will attempt to find out how

and with what policies, actions, functions, roles, etc. the state has supported, encouraged and contributed to the recent growth in the production of built environment.

To be more precise in defining this aim some of the findings that we have reached through the literature survey should be discussed again. As the correlation between public and private built investments is not peculiar to Turkish context there is a wide literature arguing the different examples and aspects of this relationship both theoretically and empirically (Berry and Huxley 1992, Bryson 1997, Charney 2001, Coakley 1994, Feagin 1987, Halia 1999, Nunn 2003, Nunn 2004). Nearly in all of these studies a certain form of state support and intervention to facilitate private built investments in urban areas or in theoretical terms capital switches into the secondary circuit of capital accumulation is highlighted in common. That is deregulation and liberalization of planning processes and urban development controls. In other words several empirical studies made on different parts of the globe highlight that bypassing of planning system and relaxing of urban development controls are the inevitable consequences where and when market forces demand a more active and determinant position in the production of built environment and demand more freedom in giving their built investment decisions. Therefore it can be asserted that a peculiar form of state intervention or involvement in the secondary circuit is the modification or adjustment of the legislation framing the production of built environment in a way to encourage and free the market forces. Following these findings, in the next chapter we will attempt to test the following hypotheses:

**Hypothesis 4:** The better the opportunities and policies provided by the state the massive the capital would be switched into the secondary circuit.

**Hypothesis 5:** Bypassing of restrictive planning regulations and decisions, relaxing of strict urban development controls are the common and widespread forms of state support and intervention. In other words, deregulation and liberalization of planning regulations and urban development controls occur frequently during when capital in search of higher profits is switched into the production built environment.

In order to test these hypotheses it is appropriate to confine our attention to recent changes made in the legal and administrative framework of built environment production in Turkey. In more concrete terms in the following chapter, it will be significant to check whether any changes, modifications and/or renewals in the legal and institutional framework of the production of built environment have taken place during post-2002 period. If a positive answer to this question is given then the content and the quality of these changes and modifications should be investigated. We should then check whether or not these changes, modifications and/or renewals could be accepted as examples or different forms of deregulation and liberalization of planning and urban development legislations. The final step should be to carry out an inquiry about the connection between these changes and some concrete implementations such as mega-projects, real estate investments, etc.

Consequently, in the following chapter above-mentioned hypotheses will be tested and the questions will be answered. First, all the legislative actions realized by the Turkish Grand National Assembly after 2002 will be surveyed in order to find out the ones which are related to the production of urban built environment. In addition to these law-level legislative actions other essential legal arrangements in the form of regulations, circulars, etc. will also be surveyed. After having the necessary and related legal arrangements are determined then they will be examined in detail.

## **CHAPTER 6**

### **DEREGULATION AND LIBERALIZATION OF LEGISLATION ON THE PRODUCTION OF BUILT ENVIRONMENT**

The final stage of our research is presented in this chapter. We are going to answer three questions which are related to each other throughout this final stage. The major one of these questions is whether or not any changes or modifications made in the legal and institutional framework concerning the production of built environment after 2002. If the answer for this question is given as yes then we will proceed through the second and the third questions. Second question is about the composition and character of the changes. That is, whether or not these changes or modifications could be accepted as examples of or different forms of deregulation and liberalization of planning system and development controls. The final question investigates if any connections occur between the processes of deregulation and liberalization and some real implementations, mega-projects, real estate investments in urban areas.

In order to discuss and answer these questions first of all we determined a specific research period. This research period, which covers the recent construction boom, starts at 2002 and continues till the end of October 2007. We will focus mainly on the legislative actions that have taken place in Turkish Grand National Assembly (hereafter TGNA) within our research period. First of all we will survey all the legislative actions of TGNA between 2002 and 2007 in order to find out the ones which are directly related to the production of built environment. Then we will make a detailed and a comprehensive analysis of the related legislative actions. The results of this analysis will help us to answer the research question posed above.

#### **6.1. A PROLOGUE TO LEGISLATIVE ACTIONS WITHIN RESEARCH PERIOD**

There are several reasons behind selecting post-2002 period as our research period. The first is that there occurred a construction boom in this period.

Construction sector has entered into a new growth phase by 2002 and 2003 since the steady and serious recession of 1990s reached its bottom level during those years. The second reason is that post-2002 period also covers a distinct macro-economic sub-period. Although some adjustments and modifications were made after financial crises of 2001 structural reform program which was adopted by 2000 is still firmly determining the major macro-economic decisions, choices and policies in Turkey. Among these policies two of them are worth mentioning as the most descriptive ones. Those are, to keep rate of real interests higher than rates of foreign exchange and inflation and to achieve high rates economic growth which derive from imports and foreign trade and financed by international capital. The last reason behind selecting post-2002 period as our research period is about internal politics. As a result of the national elections held in November 2002 current era of coalition governments has finished. A new era, which is based on the governing of a single party dominating numerically the parliament, for the second time in the recent Turkish political history, was started. Moreover elections held in July 2007 did not change this picture. Justice and Development Party (JDP) had the popular support to govern for the next 5 years and to defend its majority in parliament. These three reasons enable us to describe post-2002 as a distinct and significant period in case of production of built environment and capital switches to this production.

Here in the first part of this chapter a quantitative analysis regarding the legislative actions that have taken place in our research period is presented. Throughout this presentation the reader will find several quantitative data and information about various aspects of all legislative actions and the ones concerning the production of built environment. Although this analysis and evaluation does not have an essential explanatory power it was made and presented for descriptive purposes. We aimed at providing a background idea and information to the reader about the legislative actions in the research period. This part of the chapter should be accepted and read as an introductory start to the final stage of our research.

The total number of laws approved in the General Assembly of TGNA (hereafter GA) during 5,5 years between 2002 and October 2007 has been 973 (TGNA Archives). Among these 973 laws there are new laws in addition to amendment laws which bring about new legislative provisions to an existing law or to the



constitution. This number also covers the laws approving the ratification of international treaties. However it excludes draft bills or proposal of laws which were not discussed in General Assembly. Thus it is clear that total number of laws approved in General Assembly during our research period, no matter they are signed or sent back by the President of the Republic, is determined as 973.

Our research period covers three different legislative periods which are 21<sup>st</sup>, 22<sup>nd</sup> and 23<sup>rd</sup> periods. Legislative actions that have taken place during the first ten months of 2002 belong to 21<sup>st</sup> legislative period. The third legislative period which is the 23<sup>rd</sup> covers only the three months after July 2007. However longest part of our research period falls on 22<sup>nd</sup> legislative period which is in between the national elections held on 3 November 2002 and on 22 July 2007. Most of the legislative actions that are examined in this chapter belong to this legislative period. The table given below is presenting these figures concerning the legislative actions in relation to legislative periods.

**Table 6.1: Legislative Actions By Legislative Periods**

<b>Names and Time Intervals of Periods</b>	<b>Total Number of Laws Approved</b>
<b>21<sup>st</sup> PERIOD</b> [January 2002 – August 2002]	<b>41 Laws</b>
<b>22<sup>nd</sup> PERIOD</b> [December 2002 – June 2007]	<b>914 Laws</b>
<b>23<sup>rd</sup> PERIOD</b> [September 2007 – October 007]	<b>18 Laws</b>

*Source: Turkish Grand National Assembly Archives*

22<sup>nd</sup> period appears to be the busiest of our research period when number of laws approved within this period is considered. It is clear that number of laws approved in this period has been more than the other two periods. Figures on the table given below justify this claim. Total number of laws approved within 21<sup>st</sup> legislative period which covers the time between June 1999 and August 2002 is 386 whereas that of 22<sup>nd</sup> period is 914 which are more than the double of 21<sup>st</sup> period.

Moreover the monthly average of number of approved laws is calculated as 12 for 21<sup>st</sup> period and 18 for 22<sup>nd</sup>.

**Table 6.2: Number of All Legislative Actions by Legislative Periods**

<b>Names and Time Intervals of Periods</b>	<b>Total Number of Laws Approved</b>	<b>Average Number of Laws Approved</b>
<b>21<sup>st</sup> PERIOD</b> - 32 Months [June 1999 – August 2002]	<b>386</b> Laws in Total	<b>12</b> Laws per Month
<b>22<sup>nd</sup> PERIOD</b> - 50 Months [December 2002 – June 2007]	<b>914</b> Laws in Total	<b>18</b> Laws per Month

*Source: Turkish Grand National Assembly Archives*

As a result of our survey over these 973 laws we detected 78 of them as directly related to different aspects of urban built environment such as planning system, urban development controls, housing, land policy, development legislation, etc. In other words General Assembly, during the last 5,5 half years, concluded the approval of 78 laws (%8 in total) which brought about some changes in current legislation on planning, urban development, land and housing production in Turkey. Considerable amount of these changes as well as the new arrangements introduced are accepted to be crucial and fundamental. The complete list of these laws related is given in the appendix.

78 laws referred above cover all the laws discussed and approved in General Assembly, even the laws which were sent back by the President of the Republic to be discussed once more. 15 of these 78 laws were sent back by the President. However 9 of them were discussed once more and were approved for the second time. After their second approval, constitutionally, these 9 laws were published in the Official Gazette (hereafter OG) and had come into effect. 4 of the 15 remanded laws are of no legal force since they were not discussed for the second time. The final 2 of the remanded laws are Law No. 4841 and Law No. 4960 both of which were amending the Constitution. These laws correspondingly proposed a couple of new constitutional provisions which enable and facilitate the sale of some parts of existing forest areas. These laws were named as “Laws of 2B” and

broadly argued in the press and in public opinion. The General Assembly had given this proposal a second reading after the President sent back the first law (No. 4841). The second discussion in GA concluded the approval of this law for the second time with a number 4960. As the new version of the law included some slight changes and differences it was submitted to the approval of the President once again. Nevertheless the president, instead of signing the second law sent it back to TGNA again. This was the last step in this process since Law No. 4960 were not discussed again in GA. The reason for this withdrawal is argued as the constitutional right given to the president to submit the laws bringing constitutional amendment, which are approved for the second time without any change, to referendum. In other words the governing party did not prefer to chance the risk of submission of these legal arrangements to referendum. All in all 9 of the 15 remanded laws concerning the production of built environment has come into effect during our research period while 6 of them remained out of force due to different reasons.

All legislative actions mentioned up to now consist of laws discussed and approved by the parliament. However apart from these new and amendment laws some other legal affairs regarding built environment has taken place during our research period as well. All of them are by-laws issued by related Ministries except one, which is a circular sent by Ministry of Finance. When all these laws, by-laws and circular are taken into consideration the total number of legislative actions concerning the production of built environment that took place within our research period rises up to 89. We noticed 10 by-laws and a single circular all of which are bringing essential changes and modifications in the legislation on built environment. These figures are displayed in the table given below.

**Table 6.3: Legislative Actions Concerning Built Environment By Legislative Periods**

<b>Names and Time Intervals of Periods</b>	<b>Total Number of Legislative Actions</b>
21 <sup>st</sup> PERIOD [January 2002 – August 2002]	2 Laws
22 <sup>nd</sup> PERIOD [December 2002 – June 2007]	76 Laws, 10 By-Laws, 1 Circular
23 <sup>rd</sup> PERIOD [September 2007 - October 2007]	Nothing Yet.

*Source: Turkish Grand National Assembly Archives*

Our examination on these 89 legislative actions indicated that most of them are not new laws or new by-laws. Instead they are prepared to bring some changes in the existing legislation. In other words, amendment laws and amendment by-laws are in a majority within the 89 legislative actions referred. The related figures are given on the table below.

**Table 6.4: Composition of the Laws and By-Laws Concerning Built Environment**

<b>Type of Laws and By-Laws</b>	<b>Number of Laws and By-Laws</b>
New	30
Amendment	59
Amendments in a Single Law or By-Law	28
Amendments in Several Laws or By-Laws	29
Amendments in the Constitution	2

*Source: Turkish Grand National Assembly Archives*

According to the table given above the total number of new laws and by-laws concerning built environment is determined as 30 within our research period. However we should note here that a part of these new laws and by-laws, after coming into force, succeeded some existing laws. Municipality Act (No. 5393), Greater Municipality Law (No. 5216) and Environmental Impact Assessment By-Law are the examples of this kind. The other part of the new laws and by-laws

consists of the ones which never existed before. In other words, they were prepared and adopted as totally new arrangements within their particular fields. For instance an urban regeneration act (Law No. 5104) concerning a particular part of Ankara, the act concluding the foundation of Regional Development Agencies (No. 5449) and the by-law on permissions regarding mining activities are the examples of these totally new legislative actions.

Apart from the new ones we observed 59 amendment laws and amendment by-laws approved and/or issued within our research period. 28 out of these 59 amendment laws and by-laws are about a single text while 29 of them were prepared to change several laws and by-laws. As discussed before with 2 of those amendment laws aim at changing some of the provisions of the Constitution.

The list of all the legislative actions described up to now is given in the appendix. The list includes not only the enactment status of each law or by-law but also information about the legal actions, if any, opened against them.

## **6.2. CATEGORIZATION OF LEGISLATIVE ACTIONS WITHIN RESEARCH PERIOD**

The survey we did on TGNA archives indicated that 973 laws in total were approved by General Assembly of TGNA during the last 5.5 years. We noticed that 8% of these laws (78 in numbers) are related to built environment and the way it is produced. In other words 78 laws, which brought new provisions to legislation on planning, urban development, housing, land policy, etc., were identified. In addition it is also noticed that 10 by-laws and a circular regarding the production of built environment were issued by related Ministries during the same period. So the total amount of approved and issued legal texts concerning the production of built environment is determined as 89.

In the rest of this chapter we will focus merely on these 89 legal texts composed of laws, by-laws and circular listed in the appendix. The intention to focus on them is to investigate them in detail in order to detect and analyze legal arrangements that they include. However we will only be interested in the arrangements which can be accepted as different examples or forms of deregulation and liberalization.

At the end of this process we will attempt to categorize all of the legal arrangements and to determine the frequency of realization of each category. Therefore we will not only put forward a better understanding for the purposes, features and quality of these arrangements but also indicate the domains and channels of intervention in terms of deregulation and liberalization.

#### **6.2.1. Legislative Actions Assumed to be Affirmative Arrangements**

Before proceeding through our categorization and frequency analysis it should be emphasized that academics, professionals and their corporate organizations in the fields of planning, architecture and engineering responded most of the legislative actions approved recently in a very negative way. Their reactions and criticisms were based on the fact that new legal arrangements were barely fulfilling their expectations regarding the solution of existing problems within city building and urban development processes in Turkey. Instead they generally argued that new legal provisions and arrangements were made to remove the barriers obstructing market-dominated and profit-oriented city building or urban development. Moreover a significant part these criticisms asserted that recent legal arrangements, to a large extent, aimed at providing new channels of accumulation and circulation for capital within the production of urban built environment by deregulating and liberalizing the existing system and legislations.

The number and frequency of legal actions opened against these legal texts could be accepted as an indicator of the extent of reactions and as an evidence for the validity of their claims. As argued in the previous part of this chapter, the President frequently used his constitutional right to send back a law to be discussed once more. 20 % (15 in 78) of the laws approved by GA were not signed by the President on the basis of disagreement with constitution. However most of these remanded laws have come into effect as they were discussed and approved for the second time. A distinctive feature of our research period could be pointed out as the high frequency of legal actions opened against the laws and by-laws adopted in this period. Both the President as head of the state and Republican People's Party (hereafter RPP) as the main opposition party has frequently used their constitutional rights to sue the laws that came into effect. They opened several nullity actions against laws directly at the constitutional court. Moreover it should also be noted that professional chambers and non-

governmental organizations also opposed the legislative actions within the research period. They sued several laws and by-laws mainly for being conflicting with public interest.

Although 78 laws regarding the production of built environment were approved by GA 63 of them were signed by the President and had come into effect. The total number of legal texts which came into effect during our research period rises up to 74 when by-laws and circular are taken into consideration. We did not notice any legal actions opened against 40 of the total 74 legal texts. In other words only 54% of the laws and by-laws which came into effect during the last 5.5 years remained free from a judicial process. Therefore it is clear that 34 laws and by-laws, which correspond to 46% of the total, were subjected to judicial investigation. It was observed that at least one legal action against this 34 legal texts opened by several institutions, organizations and authorities. Majority of these legal actions are the ones opened for nullity at the constitutional court. 28 of these recent laws were subjected to an action at the constitutional court. Main opposition party played the major role in this process. RPP appealed to the constitutional court for nullity actions against 25 different laws concerning the production of built environment. It is worth mentioning that 5 of them are common actions of RPP and the President. RPP also shares an action at the constitutional court with Council of State. In addition to these 25 actions there exist three more nullity actions opened against the recent laws at the constitutional court. These actions were opened either by Council of State or by the other administrative courts. Finally it should be mentioned that professional chambers opened legal actions at Council of State against 6 of the by-laws issued within our research period.

The evaluation made above indicates that legislative actions concerning the production of built environment that has taken place within the research period were subjected to severe political and technical reactions as well as societal opposition. Most of these recent legal arrangements were criticized and objected by professional and academic societies. A very few number of legislative actions were remained free from reactions and oppositions. We noticed only 5 laws and by-laws in this context. Although they received several criticisms they were not treated as examples of deregulation and liberalization.

First of all, Law No. 5006 should be mentioned. This is an amendment law changing the Urban Development Law (No. 3194). According to the changes made in Urban Development Law it was concluded that required plots for secondary and high schools under the control of Ministry of National Education will be provided on the basis of Readjustment Share and this share was raised from 35% to 40%.

Second law which remained free from hard opposition is again an amendment law (No. 5226). This law brought some crucial changes in Law No. 2863 which lays down the goals, principles and instruments of protection of natural and cultural heritage. It could be claimed that this amendment law (No. 5226) aimed at solving the current problems and at streamlining the system of protection and conservation. Although several criticisms were made against some of the new arrangements this law generally were welcomed by related professional and academic societies (Güçhan and Kayasü 2005, 57). This amendment law not only changed Law No. 2863 but also inserted some new instruments, concepts and policies to it. These improvements especially the ones concluding the preparation of conservation plans by a group of experts, the provision of new instruments as well as tools for planning and implementation were also welcomed with satisfaction (Kurt ve Gürkan 2006, 70).

Thirdly, Turkish Penal Law (5237) should be discussed here as one of the recent positive legislative actions. This law was enacted on October 2004 and succeeded another law under the same name since then. Although new version of Penal Law contains some crucial and controversial new arrangements and modifications only the penalties imposed on crimes regarding environmental pollution and illegal building construction will be mentioned here. In the second section of the Penal Law it was concluded that anybody who causes environmental and noise pollution will be punished as well as the ones who construct illegally or condone such constructions. These arrangements should be accepted as positive steps towards the prevention of pollution and illegal settlements. However it should be noted that these steps did not last longer. An amendment law (No. 5377) concerning the Penal Law was enacted on July 2005. This new law concluded various changes in current arrangements including



penalties discussed above. The new provisions exempt buildings constructed before 12 October 2004 from sanctions and penalties.

Fourth law to be discussed in this context is the one numbered as 5281. This is also an amendment law bringing various changes in several current laws. One of the provisions of this law repealed a particular provision in Municipality Act (No. 5272) which was enacted a month before this law. The repealed provision was providing a crucial authority to municipalities. That is the sale or lease of public lands covered by current master plans. The reason behind this repeal is noted as the misuse of this authority by some municipalities such as preparing and approving master plans conflicting with the current legislation. The main motive behind the misuse was in no doubt that to increase the amount of public lands available to sale or lease (§PO 2004c, 13). Thus the positive legal arrangement here is actually the correction of a mistake done before.

Finally a by-law should be discussed here as the final example of legislative actions which were responded positively. As this by-law is on the eligibility of contractors undertaking the preparation of development plans it mainly defines who will prepare development plans and under what conditions. It was issued on January 2006 and succeeded the current by-law under the same name but with some new and additional provisions. The major modification was made on the provision concluding the definition of contractors. According to new version of this provision only city planners are defined as the experts who can undertake preparation of development plans. In addition new by-law also sets some new criteria for promotion to higher ranks within the hierarchy concerning contractors (§PO 2006a, 3).

In conclusion legal arrangements and new legislative provisions discussed above were generally welcomed by related professional and academic societies. Although criticized they were not accepted as having relation to arrangements promoting and facilitating investments in and capital transfers to the production of built environment. They were assumed to be legal efforts aimed at solving some of the current problems arouse within the related fields. However as argued before majority of recent legislative actions were reacted and opposed strongly as they were bypassing and relaxing the rules and regulations concerning urban built environment in order to enable capital switches and to facilitate private built

investments. In following parts of this chapter we will focus on and examine the legal arrangements of this kind.

### **6.2.2. Categorization of Legal Arrangements**

In this section, recent legislative actions concerning several aspects of production of built environment such as planning, urban development, housing, land policy, etc. will be examined. Our intention is to detect each legal arrangement or provision which constitutes an example of deregulation and liberalization of existing legislation. In other words, legal arrangements, which seem to be functional in facilitating the circulation of capital within urban built environment and enriching the investment opportunities in this context, will be determined. After determining these arrangements then a categorization will be made. The categories will possibly indicate different types of deregulation and liberalization efforts. The next step in this analysis will be to figure out the frequencies of realization of each type or category. Frequencies will help us to find the main fields of state's intervention in terms of deregulation and liberalization.

#### **6.2.2.1. Categories and Types of Legal Arrangements**

After having examined all the related laws, by-laws and circulars in detail and detected the legal arrangements within them we determined four broad categories under which these arrangements can be distinguished. In other words, all the recent legal arrangements deregulating and liberalizing the current legislation were grouped under four different categories. Table given below displays these categories.

**Table 6.5: Main Categories of the Legal Arrangements**

<b>L</b>	LAND POLICY
<b>BEP</b>	BUILT ENVIRONMENT PRODUCTION
<b>DA</b>	AMNESTIES FOR UNAUTHORIZED DEVELOPMENTS
<b>P</b>	PLANNING AND URBAN DEVELOPMENT LEGISLATION

In addition to the *broad categories* given above it was preferred to identify, if necessary, *sub-categories* under each broad category. The purpose is to classify the legal arrangements more specifically. For instance, under the *broad category* of Land Policy three *sub-categories* such as land allocation, land sale and change in land qualification were identified. The last step within our classification method is the *type of arrangement* which informs us about the meaning and content of that arrangement. We identified 9 different *types of arrangements* distinguished among three *sub-categories* under our first *broad category* that is the Land Policy. The result of our classification concerning Land Policy is presented on the table given below.

**Table 6.6: Types of Legal Arrangements under the Category of Land Policy**

<b>Codes</b>	<b>Broad Categories, Sub-Categories and Types of Arrangement</b>
<b>L</b>	<b>LAND POLICY</b>
<b>LA</b>	<b>LAND ALLOCATION</b>
LA1	Allocation of Public Lands and Properties to Private Sector for Promoting Investments in Particular Sectors such as Industry, Mining, Tourism, etc.
LA2	Allocation of Public Lands to Related Public Institutions for the Purpose of (Mass) Housing Production
LA3	Allocation of Public Lands and Properties to Private Sector within Special Conservation Zones-SCZs (forests, national parks, coasts, etc.) for Promoting Investments in Particular Sectors such as Industry, Mining, Tourism, etc.
<b>LS</b>	<b>LAND SALE</b>
LS1	Sale of Public Lands
LS2	Sale of Plots and Parcels within Forest Areas
LS3	Sale of Properties Designated For a Public Service Provision or To an Institution
LS4	Relaxing or Bypassing Current Legislation to Facilitate and Accelerate the Process of Land and Property Sales
<b>CLQ</b>	<b>CHANGE IN LAND QUALIFICATION</b>
CLQ1	Changing or Modifying the Qualifications of Lands and Plots within Special Conservation Zones-SCZs (agricultural lands, forest areas, meadows)
CLQ2	Relaxing or Bypassing the Restrictions upon Special Conservation Zones-SCZs for Promoting Investments in Particular Sectors such as Industry, Mining, Tourism, etc.

Three *sub-categories* were identified under our second *broad category* that is Built Environment Production. These sub-categories are Housing Production and Policy, Urban Regeneration and Mega Projects. The total number of *types of*

*arrangement* under this broad category is determined as 8. This means that throughout our research period 8 different types of legal arrangements concerning directly the production process of built environment such as housing production and regeneration had come into effect. They can be found on the table given below.

**Table 6.7: Types of Legal Arrangements under the Category of Built Environment Production**

<b>BEP</b>	<b>BUILT ENVIRONMENT PRODUCTION</b>
<b>HPP</b>	<b>HOUSING PRODUCTION AND POLICY</b>
HPP1	Promotion of (Mass) Housing Production
HPP2	Extending the Scope of Housing Development Administration's Activities and Authorities
HPP3	Provision of Financial Support and Instruments to Increase Owner-Occupation
HPP4	Provision of Credit Support or Housing to Disaster Survivors
<b>UR</b>	<b>URBAN REGENERATION</b>
UR1	Promotion of Profit-Oriented Regeneration Projects on Designated Public Properties Sold or On Sale
UR2	Promotion of Profit-Oriented Regeneration Activities within Special Conservation Zones (coasts, conservation sites, forests, etc.)
UR3	Promotion of Certain Profit-Oriented Regeneration Projects within Particular Area
<b>MP</b>	<b>MEGA-PROJECTS</b>
MP1	Promotion of Particular Profit-Oriented Mega Projects Like Cruise Ports, Shopping Malls, Office And Business Complexes, etc.

Different from the previous two broad categories we did not identify any sub-categories under our third *broad category* that is Amnesties for Unauthorized Developments. However we concluded the existence of 5 different *types of arrangement* under this category. This means that during the last 5.5 years in Turkey, 5 different kinds of amnesties regarding illegal occupation and construction as well as developments conflicting with current plans were approved and adopted by the government. These different types of amnesties are given on the following table.

**Table 6.8: Types of Legal Arrangements under the Category of Amnesties for Unauthorized Developments**

DA	AMNESTIES FOR UNAUTHORIZED DEVELOPMENTS
DA1	Sale of Illegally Occupied Public Lands to Occupiers
DA2	Legitimization of Current Status of Some Structures (industrial, tourism) Located Illegally or Contrary to Restrictions and Prohibitions
DA3	Conclusion of Agreed Dismissal In Cases of Restoration of Current Status of Structures Constructed Illegally or Contrary to its Permission
DA4	Modifications in Current Legislation In Order to Restore Current Status of Structures Constructed Illegally or Contrary to its Permission
DA5	Reduction in Scope of Penalties Imposed on Occupiers and Producers of Illegal Structures

The last *broad category* is the one entitled as Planning and Urban Development Legislation. Legal arrangements which concluded changes, modifications and/or renewals in current legislation on planning system and urban development controls are grouped in this category. No *sub-categories* are defined for this category. However we identified 8 different *types of arrangement* among all legal arrangements grouped under this category. The list of them is given on table 6.9.

**Table 6.9: Types of Legal Arrangements under the Category of Planning and Urban Development Legislation**

P	PLANNING AND URBAN DEVELOPMENT LEGISLATION
P1	Provision of Unlimited and Unrestricted Powers of Plan Preparation and Approval to Certain Institutions [OR Bypassing Current Development Legislation via Enactment of a Certain Legal Provision That is "... could prepare and approve plans without being amenable to the rules and restrictions exist in Development Legislation"]
P2	Provision of Plan Preparation and Approval Powers to Particular Institutions [OR Fragmenting Planning Powers Between Distinct Authorities]
P3	Provision of Plan Preparation and Approval Powers within Specific and Certain Locations and Areas [OR Fragmenting Planning Powers on the Basis of Specific Locations]
P4	Relaxing or Expediting the Current Planning Process In Terms of Suspending the Operation of Some Legal Provisions and Procedures
P5	Provision of Special Plan Preparation and Approval Powers Regarding Lands of Designated Public Properties Sold or Reallocated
P6	Relaxing or Shortening the Decision Process Regarding Location of Investments
P7	Empowering Greater Municipalities to Prepare and Approve Plans in Metropolitan Cities
P8	Relaxing, Expediting and/or Bypassing the Process of and Legislation on Conservation of Cultural and Natural Heritage

*Categories and types of arrangement* discussed up to now cover the legal actions or modifications made merely in the context of legal texts and provisions. In other words only the progress that has taken place on the legal aspects of the production of built environment is discussed up to now. However it was observed that during our research period some essential modifications and transformations in the institutional framework regarding the production of built environment has also taken place. Thus in addition to the categories and types mentioned above another *broad category* such as Institutional Transformation could be identified as well. The table given below displays the related figures concerning this category.

**Table 6.10: Different Types of Legal Arrangements under the Category of Institutional Transformation**

<b>REFORM ON LOCAL GOVERNMENTS</b> <ul style="list-style-type: none"> <li>• Reorganization of the Delegation of Authorities and Responsibilities Between Central and Local Bodies</li> <li>• Decentralization of Authorities and Duties</li> <li>• Extending the Borders of Greater Municipalities and the Scope of Their Activities</li> <li>• Extending the Scope of Municipality's Activities and Empowering Them Against Central Administration</li> <li>• Structural Reform on Provincial Local Administrations Empowering Them in terms of Duties and Authorities</li> </ul>
<b>EMPOWERMENT OF HOUSING DEVELOPMENT ADMINISTRATION (HDA)</b> <ul style="list-style-type: none"> <li>• Assigning HDA as the Sole Competent Authority In Housing and Land Production</li> <li>• Extending the Scope of HDA's Activities</li> <li>• Abolishing General Directorate of Land Office</li> <li>• Abolishing Undersecretariat of Housing</li> <li>• Delegating the Powers of Abolished Institutions to HDA</li> </ul>
<b>PROGRESS ON REGIONAL LEVEL</b> <ul style="list-style-type: none"> <li>• Foundation of Regional Development Agencies</li> <li>• Providing Time Extension to Southeastern Anatolia Project Regional Development Administration</li> </ul>

#### 6.2.2.2. Frequency of Realization of Each Type of Legal Arrangement

In this section frequencies of realization of each type of legal arrangements identified in the previous section are going to be determined. In other words we will find how many times each *type of arrangement* was approved or issued in

laws and by-laws during our research period. The aim of this analysis is to see both the extent and the fields of state's intervention via recent legislative actions.

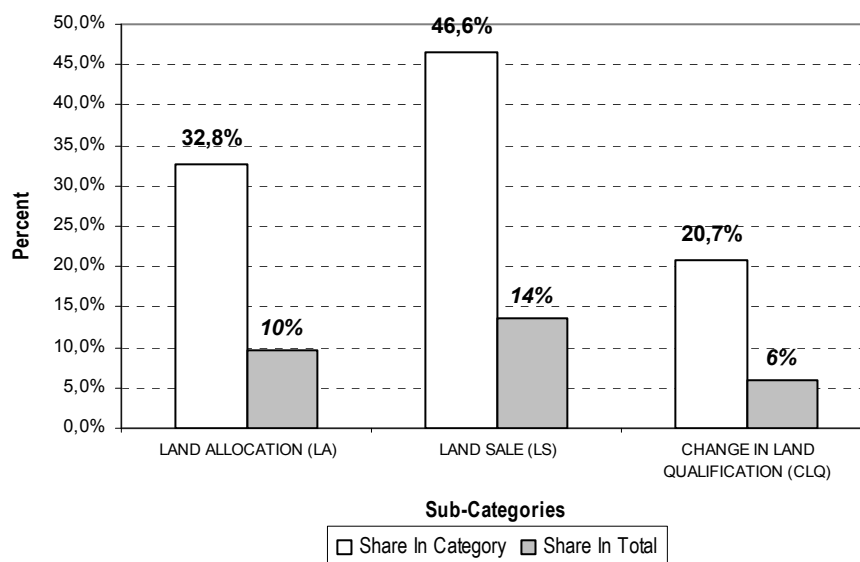
After examining all the legislative actions given in the appendix and their related provisions the total number of legal arrangements within them was determined as 198. In other words 198 legal arrangements were either approved or issued within laws and by-laws during the last 5.5 years. However it should be mentioned that these arrangements are the ones which could be accepted as examples or different forms of deregulation and liberalization on legislations framing the production of built environment. The table given below displays the distribution of these 198 arrangements over four *broad categories*.

The table clearly indicates that majority of legal arrangements belong to Planning and Urban Development Legislation Category. There occurred 76 new legal arrangements, which correspond to 38% in total, on legislation about planning and urban development during our research period. The second largest category, which includes 58 out of 198 legal arrangements, is Land Policy. This means with that 29% of legal arrangements some modifications regarding various dimensions of land policy were made. Category of Built Environment Production is placed on the third row as it comprises 22% of legal arrangements. We identified 44 arrangements which come into this category. The last category which is the smallest is the one about Amnesties for Unauthorized Developments. We noticed 20 legal arrangements, which are 20% in total, bringing different forms of amnesties regarding illegal occupation and construction actions.

**Table 6.11: Frequencies by Broad Categories**

<b>Code</b>	<b>Broad Category</b>	<b>Number of Arrangement</b>	<b>Percent of Arrangement</b>
L	Land Policy	58	% 29
BEP	Built Environment Production	44	% 22
DA	Amnesties for Unauthorized Developments	20	% 10
P	Planning and Urban Development Legislation	76	% 38
<b>T</b>	<b>Total</b>	<b>198</b>	<b>% 100</b>

We also achieved essential results when distribution of 198 legal arrangements over *sub-categories* and over *arrangement types* are examined. The following charts display figures on these results. Charts 6.1 and Chart 6.2 present the distribution of legal arrangements about land policy by sub-categories and by types of arrangement. According to the first chart the largest sub-category within Land Policy category is appeared as Land Sale. Majority of recent legal arrangements within Land Policy Category concluded different forms of land sales. 27 legal arrangements (%46.6 in category total), which brought several types of sale of public lands and properties, were observed. Land Allocation has been the second largest sub-category. The number of legal arrangements which concluded different forms of allocation of public lands mainly to private sector is determined as 19. This amount is 32% of the total arrangements grouped under this category. The smallest sub-category is appeared to be the one which includes arrangements bringing some Changes in Land Qualification. By arrangements under this category mainly the restrictions on some special lands such as agriculture lands, forests, meadows, etc. are either relaxed or bypassed. We observed 12 arrangements, which corresponds 20% in category total, of this kind.

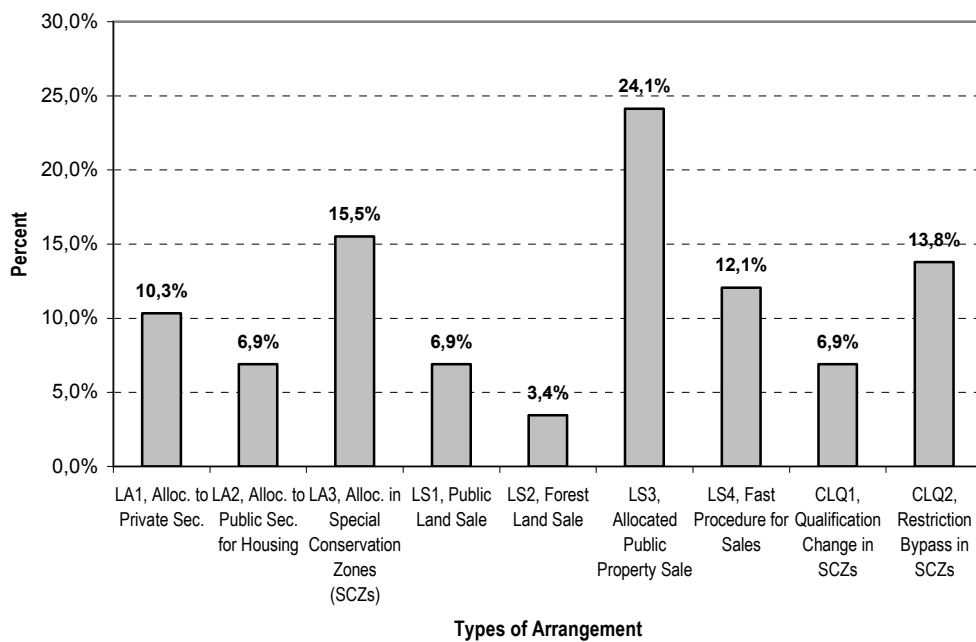


**Chart 6.1: Frequencies of Sub-Categories within Land Policy**



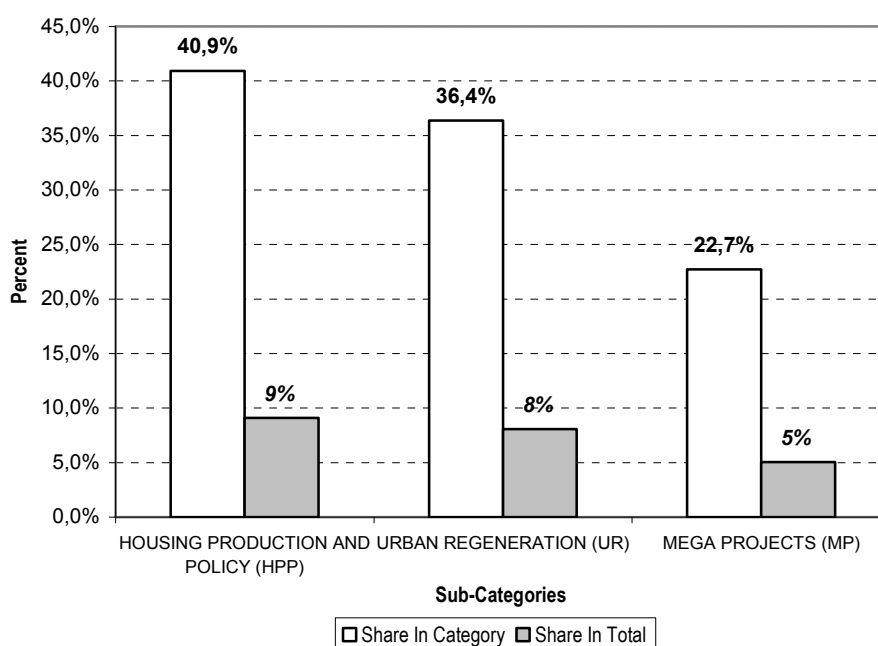
The following chart displays the figures on distribution of legal arrangements within Land Policy Category over *types of arrangements*. It is obvious that sale of designated public properties had been the most frequently realized type of legal arrangement within Land Policy Category. Nearly a quarter of legal arrangements (14 in numbers) grouped under this category concluded the sale of public properties designated either for a public service provision or to a public institution. The outstanding examples of this type of arrangement were sale of TGNA Dwellings and properties that belong to the General Directorate of Railways. When compared to figures on sale of vacant public lands it could be concluded that designated property sales has been the most common and popular type of public land sale during last 5.5 years in Turkey.

The next two types of arrangements which were realized frequently under this category are arrangements regarding Special Conservation Zones (SCZs). By SCZs, in this thesis, we refer to zones and areas, which must be protected and conserved due to their unique features, such as forests, conservation sites, meadows, coasts, etc. After examining the legal arrangements concerning them it seemed to us that SCZs excited the state's interest much within our research period. 15.5% of all legal arrangements under Land Policy Category concluded the allocation of public properties to private sector within SCZs. On the other hand with 13.8% of them restrictions upon SCZs were either relaxed or bypassed. The intention behind the realization of these two types of arrangement is seen as promotion of investments in some sectors like industry, mining, tourism, etc when related legal texts are examined.



**Chart 6.2: Frequencies of Types of Arrangements within Land Policy**

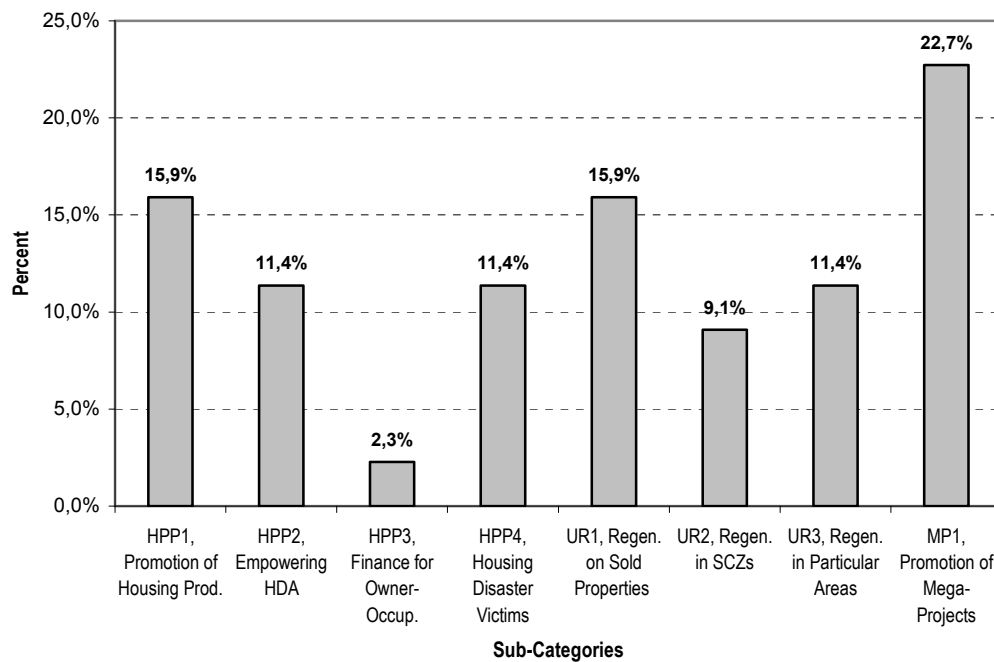
Chart 6.3 and chart 6.4 display figures on distribution of legal arrangements within Category of Built Environment Production over *sub-categories* and *types of arrangements*. According to the first chart Housing Production and Policy appears to be the largest sub-category. It covers 18 out of 44 legal arrangements (41% in total) grouped under this broad category. The second largest sub-category is the one defined as urban regeneration. We identified 16 legal arrangements (36.4% in total) which can be grouped under this sub-category. The last sub-category, which is the smallest, here is Mega-Projects. 22.7% of legal arrangements, which is 10 in numbers, within Built Environment Production Category are concluding statements concerning particular mega-projects in particular cities and areas.



**Chart 6.3: Frequencies of Sub-Categories within Built Environment Production**

According to the following chart which indicates distribution of legal arrangements over arrangement types the most frequently realized arrangement under Built Environment Production Category has been the promotion of mega-projects. In other words with 22.7% of legal arrangements (10 in numbers) under this category realization of particular profit-oriented mega projects like cruise ports, shopping malls, office buildings were either promoted or facilitated. The second type of arrangement which was realized frequently under this category is the promotion of (mass) housing production. 7 legal arrangements, which is 15.9% in category total, were adopted to promote production of (mass) housing both by public and private sectors. The third frequent type of arrangement here is the one concluding promotion of profit-oriented regeneration projects on designated public properties which were either sold or on sale. There occurred 7 legal arrangements (15.9%) of this kind. As a general outcome of figures given on the following table it should be emphasized that urban regeneration including the realization of profit-oriented mega projects has excited the state's interest very much during the last

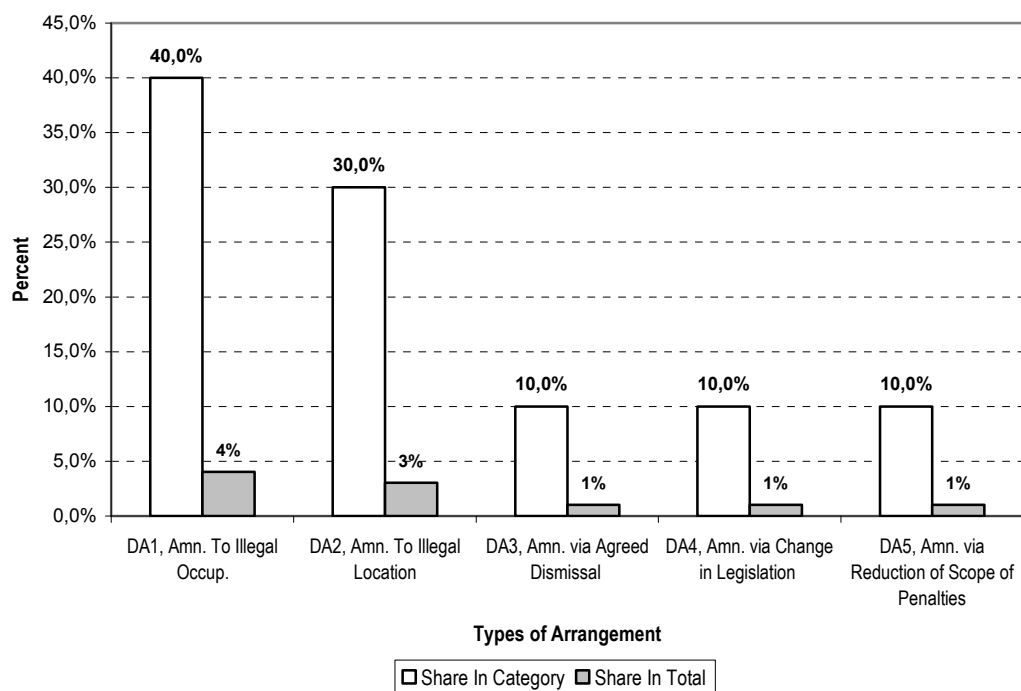
5.5 years. 60% of all legal arrangements grouped under Built Environment Production Category are directly and indirectly related to an urban regeneration issue. We should also stress here that promotion of housing production and empowerment of Housing Development Administration (HDA) had been the other issues which were distinctly realized by the state during our research period.



**Chart 6.4: Frequencies of Types of Arrangements within Built Environment Production**

As mentioned before Amnesties for Unauthorized Developments constituted our third broad category of legal arrangements. Chart 6.5 indicates the frequencies of *types of arrangements* within this category. It seems clear that within this category two types of arrangements are the leading ones. They are the amnesty arrangements concerning illegally occupied public lands on the one hand and illegally located industrial and tourism structures on the other. 40% of all amnesty arrangements (8 in numbers) have concluded the sale of illegally occupied public lands to occupiers. However by 30% of them, current status of some structures,

mainly industrial and tourism structures, located illegally or contrary to restrictions and prohibitions were legitimized. In other words these two types of amnesty arrangements were aimed at legitimizing and legalizing especially the residential, industrial and tourism structures constructed and occupied illegally and contrary to current plans. The owners or occupiers of such structures were given the right either to buy public lands they occupy or to pay fines to have their illegal status repealed.

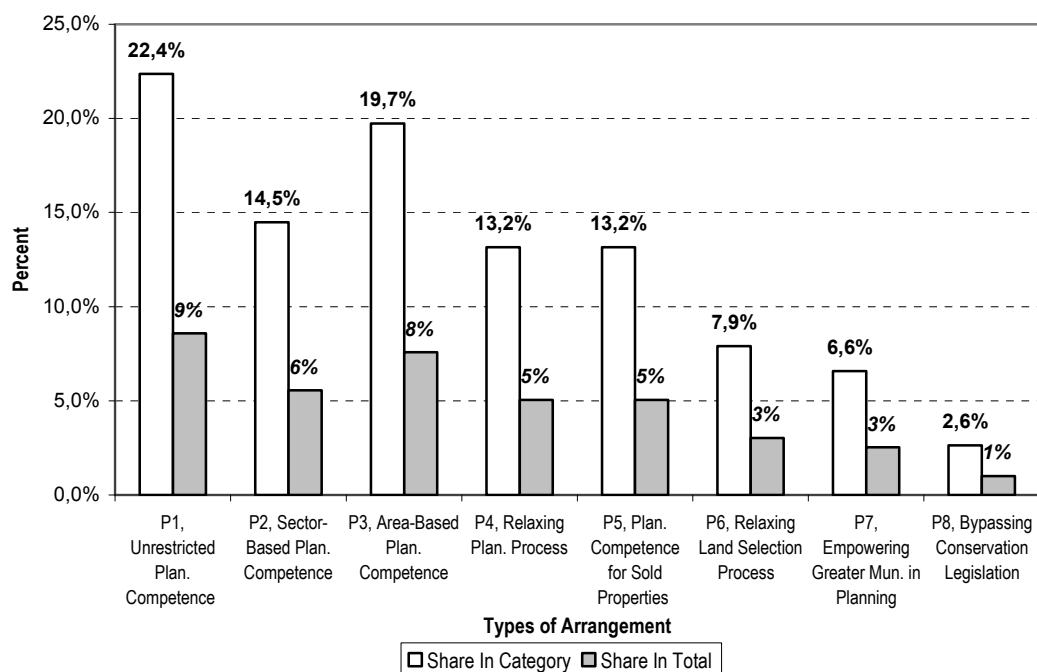


**Chart 6.5: Frequencies of Types of Arrangements within Category of Amnesties for Unauthorized Developments**

The last broad category is the one entitled as Planning and Urban Development Legislation. This category covers majority of recent legal arrangements detected through our survey. In other words it is appropriate to state that majority of legal arrangements adopted during last 5.5 years in Turkey concluded some changes and modifications in planning and urban development legislation. The chart given

below displays the distribution of these changes and modifications over type of arrangements.

The most frequently realized type of arrangement within this category has been the one which can be defined as provision of unrestricted and unlimited powers of plan preparation and approval. We identified 17 legal arrangements, which correspond to 22.4% in category total, of this type. With the approval of this type of arrangements certain public institutions were given the powers of preparing and approving development plans without being amenable to the rules and restrictions exist in Urban Development Legislation. Ministry of Public Works and Settlement (hereafter MPWS) has been the foremost institution which received these powers. Actually with this type of arrangement the government aimed at bypassing the current planning system and development controls for some certain projects and private investments rather than to reorganize the delegation of powers and authorities.



**Chart 6.6: Frequencies of Types of Arrangement with Planning and Urban Development Legislation**

The next type of arrangement realized frequently under this category is the provision of area-based plan preparation and approval powers. In other words 20% of all legal arrangements (15 in numbers) under this category concluded the provision of powers of plan preparation and approval within some specific and certain locations and areas. This indicates that with the approval of this type of arrangement during our research period, planning powers in Turkey were fragmented on the basis of specific areas and locations. The third frequent type of arrangement regarding legislation on planning and urban development is observed as provision of sector-based plan preparation and approval powers. 14.5 % of all arrangements (11 in numbers) in this category are of this type. This arrangement type is another version of the previous type. Legal arrangements of this kind conclude the fragmentation of planning and urban development powers on the basis of particular institutions and distinct authorities. With the approval of these arrangements some public institutions were equipped with planning powers during recent years. Presidency of Privatization Administration, Ministry of Transport, Ministry of Culture and Tourism, Ministry of Environment and Forestry, Provincial Special Administrations, Ministry of Industry and Commerce and Housing Development Administration are the foremost examples of these institutions.

Nearly all types of arrangement observed under planning and urban development category brought about different forms of deregulation and liberalization. Most of the arrangements aimed either at bypassing or relaxing the existing legislation or at fragmenting it on the basis of particular institutions and areas. There is no doubt that the intention behind these arrangements has been to facilitate the realization of private and public built investments. In other words recent legal arrangements concerning planning and urban development legislation aimed at relaxing this legislation to enable built investments to be done where market decides.

### **6.3. MAJOR DOMAINS OR CHANNELS OF DEREGULATION AND LIBERALIZATION**

In this section we will deal with on five different issues and make a comprehensive analysis of them. These issues, according to us, are the major fields or domains on which recent legislative actions were focused. In other words

these issues are defined as the new channels of capital accumulation and circulation provided within urban built environment. The aim of the analysis in this section is to discuss not only the features and contents of these channels but also their connection to real implementations and investments.

### **6.3.1. Sale of Designated Public Properties**

Land sales, especially the *sale of designated public properties*, has been one of the most common types of legal arrangements realized during our research period. We identified 27 legal arrangements in total concluding the sale of public lands and properties. 14 of these arrangements are directly regarding designated public properties. Although substantial amount of arrangements concerning vacant public lands and some parts of forest areas has taken place recently, major interest of the government has been on the sale of public properties which were designated for provision of a public service or to a public institution. In our opinion the reason for this interest are the facts that designated public properties mainly exist in attractive central locations within cities and therefore they provide good opportunity for profit-oriented regeneration projects when compared to vacant public land on peripheries. According to a report prepared and declared by several professional chambers stock of vacant public lands suitable for development, in Turkey, is not as large as it is supposed. Moreover majority of these lands are not covered by current master development plans. It is also emphasized that more than half of the area of all public lands and properties are covered by public properties designated to a public service or to an institution (ŞPO 2006b, 12). Consequently it is significant to assert that the government, instead of vacant peripheral public lands which can not easily be subjected to further development, preferred to sell public properties designated once to a public service and hence remained in a central location.

All of the legislative actions concerning sale of public lands and properties were usually justified on generating substantial amount of revenues to the state and on reinvesting these revenues for providing new and necessary public services. In some cases the services which will be financed by these sales returns are specified in legal texts. For instance construction of new highways was declared to be financed by the proceeds of sales of properties belong to General Directorate of Highways (Law No. 5003). A similar connection (Law No. 5027)



was also set for new railway investments and sales of properties belong to Turkish State Railways (hereafter TSR). As a consequence of such justifications some additional arrangements were also introduced alongside with these sales in order to increase sales returns. In most cases not only the sale of properties but also promotion of some regeneration projects on these properties were concluded by related legislative texts or provisions. Besides in order to provide the necessary legal conditions for regeneration projects most of the legislative provisions about property sales were also concluded special, area-based and exceptional powers of plan preparation and approval.

In short, as an introductory remark the following statements could be highlighted as the common intentions behind legal arrangements concluding sale of designated public properties.

- a) Sale of public properties together with their lands designated to a public service or to a public use,
- b) Promotion of profit-oriented regeneration projects on these properties and lands.

We identified 13 different laws in this context. These laws are Law No. 4833, Law No. 4916, Law No. 4967, Law No. 5005, Law No. 5003, Law No. 5018, Law No. 5027, Law No. 5319, Law No. 5335, Law No. 5220, Law No. 5228, Law No. 5229 and finally Law No. 5234. Names of these laws can be found on the list attached as appendix.

#### 6.3.1.1. New and Amendment Laws and By-Laws on Sale of Designated Public Properties

Among 14 laws identified in this context chronologically the first one to be discussed here is Law No. 4833 which was approved by General Assembly of TGNA (GA) on March 2003. Although this is the Budget Law for the year 2003, it includes a provision (50<sup>th</sup> article) concluding the sale of TGNA Dwellings together with the land on which they are built. According to 50<sup>th</sup> article of this law Minister of Finance was given the right to sell TGNA Dwellings and their land either as is or with some additional and new development rights provided. The provision of this additional and new development rights were guaranteed by the provisions

within the mentioned article as well. That is, Ministry of Public Works and Settlement (MPWS) was given the ex officio powers of plan preparation, change and approval as well as the power of licensing regarding merely this property. It was clearly stated in the article that MPWS could exercise these powers without being amenable to various rules and restrictions ordered in urban development legislation. In addition mandatory status of the plans that would be prepared by MPWS was emphasized, for us, in order to prevent any disagreements with related municipalities.

Main opposition party, RPP, had opened an action for nullity at the constitutional court against the provisions mentioned above. Constitutional Court had decided a stay of execution for this provision at 17.07.2003 (Official Gazette 22.07.2003/25176). However a similar provision including merely the same arrangements has taken place in another Law (No. 4969) which was approved by GA at 31.07.2003.

The second law on sale of designated public properties to be discussed is Law No. 4916 which was approved by GA at 03.07.2003. This is an amendment law including various arrangements concerning sale of designated public properties. The general intention of this law could be defined as bringing new provisions and arrangements enabling and facilitating the sale of not only designated properties but also public lands. Among various provisions of this amendment law, with one of them Minister of Finance and Council of Ministers was given a general right to cancel the designation of some lands and properties in order to sell them. In addition there were some other provisions in this law designed to expedite the process of sales.

Thirdly, two laws, both of which include same arrangements in our context, should be discussed at this point. First of them is Law No. 4967 and the second is Law No. 5005. According to these laws Ministry of Finance received an authority to decide and carry out the sale of properties either belong to or being used by Ministry of National Education after canceling their designation. In other words these laws brought legal provisions concluding sale of schools and their plots which exist in central locations. First of these laws (No. 4967) was approved in GA at 31.07.2003. However President of the Republic sent this law back to TGNA in order to be discussed once more. Following the return this law was discussed

in GA and approved for the second time at 03.12.2003. This second law (No. 5005) had come into effect. Although RPP opened an action for nullity against this law at the constitutional court the final decision of the court has not been given yet.

Chronologically Law No. 5003 should be discussed fourthly. This law, which was approved by GA at 19.11.2003, designates the rules and principles concerning the construction of new highways by General Directorate of Highways (GDH). Among these rules and principles, few arrangements stating the sale of particular public properties in order to finance the highway construction were identified. The 2<sup>nd</sup> temporary article of this law authorizes Minister of Finance to carry out the process of sale of some of the properties owned by GDH and MPWS and to allocate sale returns merely to construction of new highways. Moreover in the same article in addition to the properties mentioned above properties which are under state's governance and savings but suitable to be owned by Treasury were also subjected to sales.

In addition sale of public properties this law also includes articles concluding regeneration projects on these properties via privileged development rights and conditions. With these articles special ex officio powers of plan preparation and approval regarding these properties for sale was given to MPWS. The exercise of these powers was arranged in a way to minimize the roles of related municipalities.

Fifth law to be discussed in this context is Law No. 5018. This law, which is about administration and control of public financial system, was approved by GA at 10.12.2003. With the 46<sup>th</sup> article of this law, like in the previous laws, Ministry of Finance was given the general authority to organize the sale of all type of movable goods and properties belong to public administrations bound to the general budget.

Turkish State Railways (TSR) has been one of the popular public institutions whose properties were frequently subjected to sales and further regeneration projects. We identified three different laws including several provisions and arrangements concerning the sale of TSR's properties. First of them is Budget Law for year 2004 which was approved by GA at 24.12.2003. According to one of

the provisions of 29<sup>th</sup> article in this law, Executive Committee of TSR was authorized either to sell or to turn over some of the properties belong to TSR. However there was a condition defined to exercise this authority. That is to spend sales returns or proceeds merely for construction of new railways and for maintenance investments to improve the existing railways. Council of State opened an action for nullity directly against these legal provisions at the constitutional court. The result has been a decree of annulment of the related articles and provisions. Constitutional court had adjudicated the case at 10.11.2005 and concluded a disagreement with constitution (Official Gazette 07.02.2006/26073).

While this judicial investigation was being processed the legal arrangement about TSR's properties contented with some new and additional provisions was inserted in two other laws. The reason behind this, for us, is to fulfill a probable legal gap in case of a decree of annulment. First of all, Law No. 5319 was approved to reenact these legal arrangements. However it was not signed by the President and sent back to TGNA to be discussed once more. Whereupon this remanded law was discussed and approved by GA for the second time at 21.04.2005. Thus the second version of this law (No. 5335) was constitutionally signed by the President and had taken effect.

In addition to the articles and provisions canceled by the constitutional court some new legal arrangements concerning sales of TSR's properties has also come into effect by Law No. 5335. For instance definition of properties for sale was extended by this recent law. Alongside with properties belong to TSR, treasury properties exist on ports which are being used by TSR and in privatization program were exhibited for sale as well. Another new arrangement within Law No. 5335 is again about promotion of regeneration projects on these properties via privileged development rights and particular development plans. In order to facilitate the regeneration MPWS was given again a new special ex officio powers of plan preparation and approval regarding TSR's properties exhibited for sale. The exercise of these powers was exempted from some arrangements within urban development legislation and also arranged in a way to minimize the roles of related municipalities. Moreover with the new provisions in Law No. 5335 processes of sale, evaluation and planning of these properties were exempted

from various current laws, legal procedures and rules such as Urban Development Law (No. 3194) and Public Procurement Law (No. 4734). Consequently it can be concluded that intentions of these laws have been first, to facilitate the sale of some of TSR's properties in order to finance the provision of some new public investments and second, to equip these properties with privileged development rights and conditions enabling further regeneration projects in order to increase sales returns.

Ministry of Health has been another public institution whose properties were exhibited for sale via legislative actions. A single law was identified in this context. That is Law No. 5220 which was approved by GA at 14.07.2004. With this law an article was inserted to Code of Health Services (No. 3359). According to this article Minister of Finance was empowered first, to cancel the designation of and second, to organize the sale of properties either belongings to the Ministry of Health or being used by it. The process of sale was also exempted from General Accountancy Act (No. 1050). The sales returns were stated to be used for construction of new medical establishments and for maintenance of the existing ones. Although main opposition party, RPP, opened an action for nullity against this law constitutional court has not adjudicated yet.

Apart from the institutions mentioned up to now properties that belong to the General Directorate of Retired Saving Fund were exhibited for sale as well. By Law No. 5228, which was approved by GA at 16.07.2004, some articles and provisions were inserted to Retired Saving Fund Law (No. 5434). These new articles and provisions concluded the sale of Fund's "properties which are not directly related to its facilities and duties". The phrase in quotation denotes hotels and holiday camps belong to and being operated by the Fund. According to the provisions defining the process of these sales, Presidency of the Privatization Administration was referred as one of the authorized bodies to perform administration.

Final examples of laws regarding sales of designated properties that will be discussed in this section are Law No. 5229 and Law No. 5234. Both of these laws include same legal arrangements and provisions. As Law No. 5229 approved by GA at 16.07.2004 was sent back to TGNA by the President Law No. 5234 was approved as a result of the second discussion in GA and had come into effect. A

common temporary article was identified in both of these laws concluding the sale of a particular Treasury property that is Haydarpaşa Port. According to this article Minister of Finance was given the free giving right of Haydarpaşa Port together with the other properties and buildings on it to Turkish State Railways (TSR). The reason behind this transfer, for us, is to make TSR to sell this property as it was empowered to do so by previous legislative actions. Another essential arrangement brought by this temporary article is about planning process regarding directly to this property. Like in some other previous laws MPWS was given the ex officio powers of plan preparation, change and approval as well as the power of licensing regarding merely Haydarpaşa Port. Moreover the exercise of these powers was exempted from various rules and restrictions within urban development legislation. In addition mandatory status of the plans that will be prepared by MPWS was emphasized, for us, in order to prevent any disagreements with related municipalities.

As a result of our analysis on legislative actions aimed at enabling the sale of designated public properties it can be concluded that majority of them have some dimensions and issues in common. These issues are summarized as follows:

- a) First of all, in all of the laws examined in this section, public properties either designated to or being used by public institutions to provide particular public services were exhibited for sale or attempted to be sold. The main motive behind these sales was generally implied as to finance some new public investments.
- b) In order to facilitate and expedite the process of these sales several laws, legal provisions, procedures and rules were either relaxed or bypassed.
- c) Usually these legal actions aimed not only at the sale of designated public properties but also the realization of profit-oriented regeneration projects via privileged development rights and conditions.
- d) In order to enable and facilitate these privileged regeneration projects, area-based powers of plan preparation and approval exempted from several rules, restrictions and procedures were delegated mainly to Ministry of Public Works and Settlement.

#### 6.3.1.2. Progress and Concrete Results Achieved

In this part progress achieved on sale and regeneration of designated public properties will be discussed. Significant progress and several examples are observed in this context.

First of all, progress achieved in sale of TGNA Dwellings should be mentioned. These dwellings together with the land on which they were built have been sold. Shortly after the sale a regeneration process was initiated. New development plans and urban design projects concerning the property were prepared and approved. According to these plans and projects the area on which TGNA Dwellings are found were transformed from a low-density residential area with semi-detached houses into a high-density mixed-use area with high-rise apartment blocks and a big shopping mall. 1832 residential units, within 31-storied 12 blocks and 7-storied 5 blocks, were planned to be constructed together with a 3-storied shopping mall which covers a total closed area of 160.000 m<sup>2</sup>. Although the construction process for the whole project, namely PARKORAN Residences, has not been finished yet the shopping mall, namely PANORA, were constructed and has gone into service. Finally it should be noted that this is a joint regeneration project of three different partners. Two of the partners are big private construction companies, MESA and Aktürk. The third partner is Emlak Pazarlama which is one of the participations of Housing Development Administration.



**Figure 6.1: An Imaginative View of PARKORAN Residences**



**Figure 6.2: Site Plan of PARKORAN Residences**

A popular and a well-known example of sales of properties belong to General Directorate of Highways has taken place in Istanbul. This property, which is located in Zincirlikuyu in Istanbul, was sold at an open auction as a part of privatization program. A big corporate capital group, namely Zorlu Holding, has purchased this property. Before the auction sale new development plans providing additional and privileged development rights to this property were prepared and approved. According to them Zorlu Holding, new owner of the property, has the right to carry out a regeneration project, which includes the construction of hotel accommodation, congress and exposition centers, a shopping mall, residences, etc. on this property. With these new plans a large building and construction site enough to carry out all of the facilities mentioned above was provided as well.



There is another example of this sort of a property sale which has taken place in Istanbul too. An old bus garage, which is located in Levent and belongs to a department of Greater Municipality of Istanbul, was sold again at an open auction as a part of privatization program. This time the purchaser has been an international real estate company, namely Sama Dubai. New development plans concerning the property were prepared and approved prior to the sale. Due to the conditions and decisions given by these plans Sama Dubai Co. received the right of carrying out a regeneration project, within which residential and commercial blocks are permitted to be constructed, on this property. Total area of the proposed construction site was determined as 46.241 m<sup>2</sup>. Content of this regeneration project was declared to the press and public long before the auction. It is known that Sama Dubai Co. will construct two sky-scrapers named as Dubai Towers on this area.

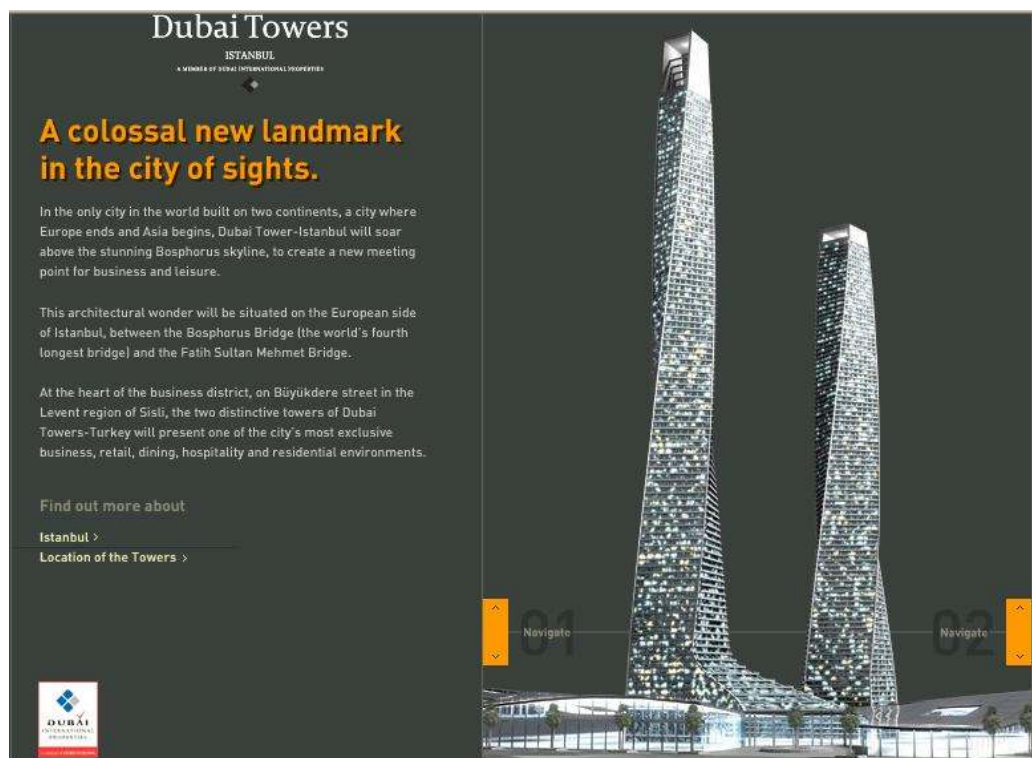


Figure 6.3: An Imaginative View of Dubai Towers

Some progress was also achieved in sale of properties that belong to the General Directorate of Retired Saving Fund. Several properties, mainly hotels, have been sold in different cities as a part of privatization program. An outstanding example of them is the sale of Hilton-Istanbul which has an attractive location in central part of the city. Doğan Holding, which is the biggest media group in Turkey, has purchased Hilton-Istanbul. Hotel Büyük Tarabya in Istanbul, Hotel Büyük Efes in İzmir and Hotel Büyük Ankara are the other well-known and significant examples of sales of this kind. Although a regeneration process on these properties was not concluded in the related legal texts news about Dogan Holding's attempts to obtain new and additional development rights for Hilton-Istanbul's land are occasionally exist in the press.

The main progress achieved in sale of TSR's properties has been the sale of several ports being used by TSR. All the sales concerning ports were made as open auctions within privatization program. Initially Mersin Port was sold to one of the biggest corporate capital groups of Turkey that is Akfen Group. Following the sale of Mersin Port, auction sales for İzmir and Derince Ports were made as well. As they are waiting to be approved by the Presidency of the Privatization Administration these two sales are not completed yet. However the most popular example in case of sale of TSR's properties was the sale of Haydarpaşa Train Station and Port. Although some progress occurred within the initial steps of this sale no concrete result happened yet. By the initial steps we mean the preparation of development plans, which put forward the probable regeneration project, regarding this property covering approximately a million square meters. Within these plans, the area within which the station and port located was proposed to be transformed into a new use called, "World Trade Center and Cruise Port". The main land uses proposed for this area are seven skyscrapers, seven five-star hotels, several sports and leisure centers, luxurious residences, marina, congress center. This project was opposed and reacted very strongly by some NGOs, professional chambers, academic societies, etc. due to various reasons. However in case of sale of Haydarpaşa Port, we did not notice any progress other than preparation of the plans mentioned above.

### **6.3.2. Empowerment of Housing Development Administration and Promotion of (Mass) Housing Production**

The second issue which was accepted as a major field towards which recent legislative actions were oriented is *promotion of (mass) housing production*. In other words mass housing production has been one of the crucial sources behind the recent growth in the production of urban built environment. Legal texts such as laws and by-laws regarding this issue clearly indicate that legal arrangements have the aim to activate not only private sector but also public sector in this context. State, in addition to its regulatory role, seemed determined to participate effectively into housing sector as a producer as well. The significant and major instruments to realize this aim, for us, has been empowerment of Housing Development Administration (HDA) and extending the scope of its activities and functions.

Before proceeding through a detailed analysis following statements should be pointed as the common aims of legal arrangements concerning this issue.

- a) To promote production of (mass) housing at national level especially by public sector OR to increase public sector's housing investments,
- b) To this end, to empower HDA in order to make it as the only state's institution governing housing sector,
- c) And to extend the scope of HDA's activities, duties and authorities.

We identified 11 laws regarding either empowerment of HDA or promotion of housing in this context. These laws are Law No. 4767, Law No. 4864, Law No. 4964, Law No. 4966, Law No. 5104, Law No. 5162, Law No. 5229, Law No. 5234, Law No. 5327, Law No. 5273 and finally Law No. 5609. Names of these laws are given on the list provided in the appendix.

#### **6.3.2.1 New and Amendment Laws and By-Laws Empowering HDA and Promoting Housing**

In a chronological order legislative actions to be discussed first in this section are two laws, namely Law No. 4767 and Law No. 4864. Both of them include arrangements to empower HDA. With the provisions of these laws HDA received

new authorities regarding construction of housing units and workplaces for disaster survivors in particular towns recently suffered from disasters. Law No. 4767, which was approved by GA at 27.06.2002, inserted a temporary article to Housing Development Administration Law No. 2985 (hereafter HDA Law). According to this article HDA was assigned to grant credits for housing cooperatives founded by survivors of earthquake happened in Afyon at 2002. A similar arrangement was brought by Law No. 4864, which was approved by GA at 29.05.2003. With this law HDA was assigned to grant such cooperatives founded by survivors of earthquakes happened in Pülümür, Urla and Seferihisar in 2003.

Secondly, Law No. 4964, which was approved by GA at 30.07.2003, should be discussed here. We accepted this law as one of the laws promoting production of housing especially by the public sector. This is an amendment law which made some essential changes in Public Procurement Law (No: 4734). Due to one of these changes mass housing projects were exempted from various rules and restrictions exist in Law No. 4734. Moreover it was concluded that some procedure concerning these projects such as expropriation, land supply and preparation of development plans could be procured without being amenable to bidding principles and rules of Law No. 4734. According to us the intention behind these arrangements was to enable and facilitate the production of housing by the public sector.

In a chronological order the third legislative action in this context has been the approval of Law No. 4966 at 31.07.2003. This law amended several laws but especially and essentially HDA Law (No. 2985). First of all, The Undersecretariat of Housing was abolished by this law. After the approval of this law, HDA remained as the sole public institution responsible for housing. Besides, new functions and duties were given to HDA due to the changes made in HDA Law. Two of these functions are granting credits for projects intended for improvement of rural architecture, transformation of squatter areas, preservation and restoration of historical and regional architecture and making interest subsidies for all such credits, if necessary. In addition to these new granting duties HDA was assigned to establish companies or to participate in companies within the housing sector, to develop projects nationally and internationally, to carry out applications for housing, infrastructure and social facilities, to implement profit-oriented

projects to raise its funds and resources. Finally duties, which we discussed above, concerning disaster survivors, were also undertaken with the amendments brought by Law No. 4966. Instead of assigning particular duties concerning disasters occurred in specific locations Law No. 4966 inserted an article to HDA Law. This article concludes that HDA could build, promote and support construction of housing units as well as social facilities and infrastructures in disaster areas.

Another law empowering HDA has been Law No. 5104 which was approved at 04.03.2004. This law was prepared and approved specifically for the realization of a particular urban regeneration project that is Northern Ankara Peripheral Urban Regeneration Project. This law assigned several tasks within this project to HDA as well as Greater Municipality of Ankara. These tasks were defined as to prepare necessary urban design projects and to carry out applications for construction works and infrastructure facilities.

Approval of Law No. 5162 has been one of the most essential legislative actions regarding the promotion of public housing investments and empowerment of HDA during our research period. This law, which was approved at 05.05.2004, is an amendment law bringing changes in several laws including HDA Law as well. According to our opinion the major legal arrangement which came into effect by this law is the power of plan preparation given to HDA. Due to changes made by this Law HDA was authorized directly for preparation and change of all kind of plans concerning its projects within squatter improvement zones, housing implementation zones and mass housing settlement zones. Moreover HDA was given also the ex officio power of approval of these plans if the related competent bodies do not approve them in three months after their submission.

Another arrangement that was noticed in Law No. 5162 is the right given to HDA for becoming partners not only in commercial firms and companies but also in financial institutions. This arrangement was justified on the ground that HDA was made responsible from the administration of non-banking properties and assets of Emlak Bank which was abolished previously. In addition to new authorities mentioned above HDA was given some other tasks concerning squatters. Those are to develop projects for renovation of squatter areas in order to eliminate or regain those areas, to make construction implementations and to perform

financial regulations regarding those projects. Also, in this framework, HDA by considering the general income level of residents of squatter areas is given the responsibility of determining the prices of constructed residences under realized construction costs.

RPP, opened an action for nullity against one of these arrangements at the constitutional court. They asserted that power of plan preparation and ex officio power of plan approval given to HDA had clear disagreement with the constitution. However final decision of the court declared at 08.12.2004 has been in the opposite direction. It was concluded by the constitutional court that related legal provisions did not have any disagreement with constitution (Official Gazette 26.10.2005/25978).

We should discuss here another group of laws which empowered HDA in case of disasters. Within this group we noticed three laws. These are Law. No 5229, Law No. 5234 and Law No. 5327. In all of them HDA was assigned to implement projects concerning new residences and workplaces for survivors of some particular disaster events. First of these laws (No. 5229) was approved by GA at 16.07.2004. As this law was sent back to parliament by the President it was discussed once more and approved at 17.09.2004. The second version of Law No. 5229 which is the Law No. 5234 included the same arrangements about HDA. According to this arrangement, by mentioning some specific disasters occurred in 2004, MPWS and HDA were assigned to construct residences and workplaces for disaster survivors who remained homeless and off their workplaces. The third law of this group, which is Law No. 5237, included an extended version of the arrangement mentioned previously. This time the scope was extended to cover several disasters occurred in 2003, 2004 and 2005.

At the end of 2004 Law No. 5273 dated 14.12.2004 was approved by GA. This has also been an essential legislative action within the process of empowerment of HDA. This law concluded the abolishment of General Directorate of Land Office which is an old public institution established in 1969. According to this re-organizational change all the duties and the authority of this Office were transferred to HDA. In other words General Directorate of Land Office was annexed to HDA by the enactment of Law No. 5273. Based on this legal arrangement, HDA became responsible for managing 64.5 million square meters

of land in addition to its current property portfolio. A major outcome of this law has been to make HDA as the dominant public institution not only in the field of housing but also in land development. According to our opinion, the intention behind this legal arrangement was to integrate the process of land development and housing production within the same institution in order to increase and facilitate the production of mass housing in urban areas.

The final law that should be discussed in this section is the one numbered as 5609 and dated 22.03.2007. This law amended the Squatter Act (No. 775) by changing some of its articles and by inserting some new ones. The major change has been the replacement of all of the current phrases referring to Ministry of Public Works and Settlement with Housing Development Administration. Due to this change, all the authorities and responsibilities concerning the execution of Squatter Act were transferred from MPWS to HDA. With another temporary article inserted to this Act public properties planned to be used in accordance with Squatter Act were also transferred to HDA. With this final legal arrangement HDA, in addition to its current roles and duties regarding housing has become responsible to deal with the issues concerning illegal housing as well.

Consequently, after our analysis on legislative actions concerning the production of (mass) housing and empowerment of HDA it can be concluded that the common outcomes of those actions are as follows:

- a) Several legal and institutional arrangements were made in order to increase and facilitate the production of (mass) housing.
- b) Authorities and duties regarding both provision of urban land and production of housing by the public sector were gathered within a single institution that is Housing Development Administration. HDA, in this context, has become the sole competent and powerful public institution.
- c) The scope of HDA's actions and its functions were extended in such a way to cover production of housing for disaster survivors and in disaster zones, preparation and implementation of profit-oriented projects, development of projects to improve squatter areas, etc.

- d) HDA was given the (ex officio) powers of plan preparation and plan approval. Thus another example of institutional-based fragmentation of current planning system has occurred within the production of (mass) housing.

All in all, discussions that we have done in this section indicated that the government not only aimed at providing some opportunities and facilities to private sector but also aimed at activating the public sector mainly within production of (mass) housing. In other words, active interventionist and productive roles of the state in addition to its passive regulatory and supportive roles were intensified during our research period.

#### 6.3.2.2. Progress and Concrete Results Achieved

As a result of these legal and institutional arrangements some certain progress was achieved within the field of housing after 2003. Legislative actions regarding the promotion of (mass) housing and empowerment of HDA were referred as a policy planned within the government's "planned urbanization and housing production program" (TOKİ 2007, 11). Within the framework of this program the government intended and planned to build 500.000 housing units by HDA in 81 provinces. It could be asserted that most of the legal arrangements discussed above were made to realize this goal. Construction of 275.000 housing units out of 500.000 planned housing units was started within 4.5 years between January 2003 and July 2007. In other words, during the last 5 years, the government initiated housing projects covering the construction of 275.000 housing units in 81 provinces and 350 districts. It is declared by HDA that construction of 140.000 units was finished with all their utilities connected and landscaping made (TOKİ 2007, 23).





**Figure 6.4: Completed Profit-Oriented Residential Project by HDA in Kozyatağı-İstanbul (Source: TOKİ, 2007)**

45.822 of total 275.000 housing units started to be constructed, are profit-oriented residential projects for upper income groups. They were planned and constructed as common projects of HDA and one of its participations, Emlak Real Estate Investment Trust. It was declared by HDA that these profit-oriented projects were developed in accordance to revenue shares model and they provided 1.8 Billion YTL to HDA as revenue (TOKİ 2007, 26). The rest of housing projects which covers construction of 229.178 housing units were planned and initiated as social housing projects. The details of these social housing projects are given on the following table.

**Table 6.12: Social Housing Produced By HDA (Housing Units)**

Housing for Low Income Groups and Poor Households	57.541
Housing within Squatter Improvement Projects	22.497
Housing for Disaster Survivors	7.280
Housing for Middle Income Groups	139.214
Housing within Agro-Village Implementations	646 (in 27 different villages)

*Source: TOKİ 2007, 25*





**Figure 6.5: Completed Profit-Oriented Residential Project by HDA in Ümraniye** (Source: TOKİ, 2007)



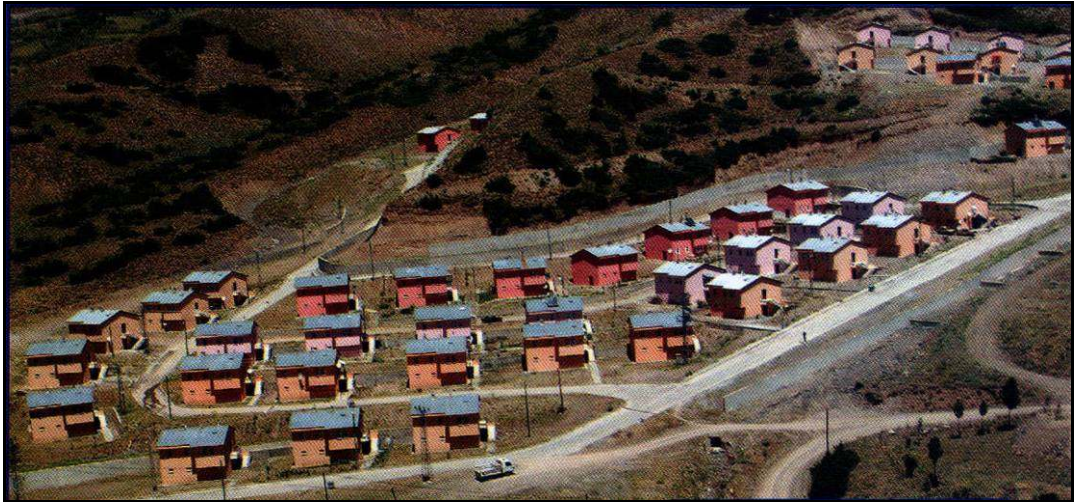
**Figure 6.6: Completed Squatter Improvement Project by HDA in Erzincan** (Source: TOKİ, 2007)

In addition to construction of 275.000 housing units mentioned above HDA has also started the construction of some social facilities and infrastructures. The total number of them has been 945. Detailed information regarding them is presented on the table given below.

**Table 6.13: Social Facilities and Infrastructures Constructed By HDA**

Schools	340
Commercial Centers	245
Sports Halls	52
Libraries	36
Hospital	7
Health Clinics	59
Mosques	206

*Source: TOKİ 2007, 24*



**Figure 6.7: Completed Residences for Disaster Survivors by HDA in Pülümür (Source: TOKİ, 2007)**

Moreover, during 4.5 years between January 2003 and July 2007 HDA has granted substantial amount of credits for several projects with different aims as



well as housing credits. Total number of individual and mass housing credits provided within this period were declared as 56.000. Besides, 5.1 million YTL were supplied as credits to 70 different projects aimed at preservation and restoration of historical quarters and registered cultural properties (TOKİ 2007, 30-31).

Consequently, extent of actions taken and projects developed by HDA after 2003 becomes much clearer when HDA's past activities and actions are taken into consideration. While HDA, starting from its foundation till 2003, has realized the construction of 43.145 housing units totally it recently initiated the construction of 275.000 housing units, which is 6 times more than the total of pre-2003 period (TOKİ 2007, 34). This, for us, indicates that the government's aim, which has been to actively participate into the field of urban built environment as a producer, was mainly realized or fulfilled after 2003. In other words we observed that the government, after 2003 by using its legislative and executive powers, intervened and participated in (mass) housing production more active and intense than ever.

### **6.3.3. Promotion of Tourism Investments and Investors**

The third issue which we observed as a domain of deregulation and liberalization has been the *promotion of tourism investments and investors*. In other words with recent legislative actions tourism facilities and activities were attempted to be organized as opportunities for fresh investments and channels of circulation in private sector's favor. Although less in quantity we identified some laws and by-laws prepared and approved mainly to promote and support generously tourism investments and investors. These legal actions had essential repercussions in public opinion and received societal and technical opposition from related sections of the society.

It seemed to us that legal arrangements concluding the promotion of tourism investments aimed at achieving the following stages and results.

- a) To derive revenue from natural, historical and cultural assets via opening them to tourism investments,
- b) To enable and facilitate tourism investments within Special Conservation Zones,

- c) To these ends, to provide several instruments and facilities to tourism investors such as land allocation, fast track planning, etc.,
- d) To these ends, to give the powers of preparation and approval of plans regarding tourism investments to Ministry of Culture and Tourism.

We identified 2 laws and 2 by-laws in this context. The laws are Law No. 4848 and Law No. 4957. The first by-law is the one entitled as “By-Law Regarding Preparation and Approval of Development Plans within Culture and Tourism Conservation and Development Regions and Tourism Centers”. The second by-law is the one entitled as “By-Law Regarding the Implementation of Coastal Act”.

#### 6.3.3.1. New and Amendment Laws and By-Laws about Tourism Investments

Chronologically, the first law to be discussed in this context is Law No. 4848 which was approved by GA at 16.04.2003. With this law, Ministry of Culture was united with Ministry of Tourism and organizational structure and duties of the new ministry, Ministry of Culture and Tourism (hereafter MCT), were concluded and put into effect. As clear, first legislative action regarding tourism sector and investments within that sector has been an institutional reorganization. Fields of cultural affairs and tourism were given under the authority of a single ministry. Thus it became easier to establish some connected relationships between them. One of the major aims of this institutional reorganization was claimed to be to make cultural and natural assets, deemed necessary, ready to various sorts of tourism investments (ŞPO 2003, 2-3). In other words, with this reorganization it was aimed to facilitate and enable the realization of some tourism investments within Special Conservation Zones (SCZs) which contain essential examples of natural and cultural heritage as well as attractive natural and cultural assets.

Although Law No. 4848 concluded essential new and revised arrangements we will discuss here only the ones which seem related to the process of deregulation and liberalization of built environment. In this context, some new and revised duties and authorities given to MCT were identified. Among these authorities, declaration of culture and tourism conservation and development regions, expropriation of necessary properties within these regions, making and directing tourism investments, allocation of public properties to tourism investors and

powers of preparation and approval of all sorts of plans within culture and tourism conservation and development regions seemed to us as the foremost ones.

This law constituted another example of legislative actions by which current planning system and powers were fragmented on the basis of particular institutions and special zones. The law delegated the necessary planning powers concerning tourism investments and investment areas to the Ministry which was charged with encouraging, enabling and facilitating these investments. In other words with this law a discretionary power or right in terms of planning powers was given to a body which demands that discretion. According to us, the aim of this arrangement has been to ease and relax the planning process which is accepted merely as a legal and administrative barrier to private investments. Besides according to the 12<sup>th</sup> article in this law General Directorate of Investments and Enterprises was determined as the department responsible from the exercise of these planning powers. This also indicates that planning process is accepted as simply a procedure throughout the entire process of tourism investments.

RPP, as the main opposition party, opened an action for nullity against this law entirely at the constitutional court. Final decision of the court was declared at 15.10.2003 and RPP's appeal was rejected. Constitutional court finally concluded the agreement of Law No. 4848 with constitution (Official Gazette 14.04.2005/25785).

The second legislative action concerning the promotion of tourism investments and investors is the approval of Law No. 4957. This law, which was approved on July 2003, amended essentially the Act on Encouragement of Tourism (No. 2634). Major aims of the changes brought by Law No. 4957 have been to provide generous and various supports and incentives to tourism investments and investors.

According to these changes, in order to promote tourism investments and investors, MCT was given the right to designate public properties to private sector tourism companies and to provide the necessary and required development rights regarding these properties. For this purpose, powers of plan preparation and modification within culture and tourism conservation and development regions and tourism centers were delegated to MCT. In addition to these powers, MCT

was also authorized to exercise the ex officio power of approval of these plans and power of licensing of developments according to these plans. Moreover some legal procedure was either relaxed or bypassed in order to facilitate and expedite the process of tourism investments as well as introduction of some new legal instruments such as quick expropriation.

Public property designation, in this law, was treated as one of the major means of promoting investments within tourism development regions and centers. MCT was delegated the right to designate either the entire region or some sub-regions and plots to tourism companies and investors within tourism development regions and centers. Even MCT and Council of Ministers together was given the right to designate whole of a culture and tourism conservation and development region to “a single main investor”. In addition to the designation of current public properties MCT has also received the right to expropriate some private properties just to designate them to investors after expropriation.

Majority of legal arrangements mentioned above exist in the 3<sup>rd</sup> article of Law No. 4957 which amends the 8<sup>th</sup> article of Law No. 2634. With a sentence inserted at the end of these articles it was concluded that principles and rules regarding the implementation of those articles should be determined in such a way to attract direct foreign tourism investments and foreign trademarks investing globally. Apart from all these arrangements discussed up to now, the 6<sup>th</sup> article of Law No. 4957 should finally be mentioned here. With this article an additional article numbered as 4 was inserted to Act on Encouragement of Tourism (No. 2634). This article concludes that MCT, in addition to public properties exist in tourism development regions, was authorized to allocate or designate public properties to tourism investments within State Forests, National Parks and Special Environmental Conservation Zones.

A nullity action at the constitutional court against this law was opened by Council of State. The appeal was not on the entire law but specifically on some of its articles and provisions concerning property allocation and designation to tourism investments. However the judicial process has not finished yet.

Third legislative action to be discussed in this section is a by-law which was issued by Ministry of Culture and Tourism (MCT) at 03.11.2003. This by law

named as “By-Law Regarding Preparation and Approval of Development Plans within Culture and Tourism Conservation and Development Regions and Tourism Centers” was issued in order to ensure the application of some of the arrangements and provisions of previously discussed Laws No. 4957/2634. These arrangements and provisions are the ones concluding the delegation of powers of plan preparation and approval to MCT. Thus this by-law lays down guidelines and principles concerning the preparation and approval of plans regarding tourism investments and investment areas in detail.

As a general finding it can be concluded that with this by-law all the powers of plan preparation and approval within tourism development regions and centers were transferred to MCT by bypassing local governments and some related institutions. With this by-law it was clearly concluded that all types of development plans regarding tourism regions and centers would be prepared, modified and approved ex officio by MCT. Moreover MCT was given the right to approve plans prepared within the areas acquired by landfills and draining under the control of Coastal Act (No. 3621/3830). Roles of local governments and municipalities within the preparation of these development plans were minimized with this by-law. They were confined merely to make recommendations on prepared development plans rather than taking any part in preparation of the plans. According to the 15<sup>th</sup> article of by-law, development plans prepared by MCT were supposed to be submitted to municipalities and provincial governorates in order to take their institutional advises and opinions. However with the same article period of review and assessment provided to these local bodies was limited to 30 days. In the event of no response at the end of 30 days MCT was given the right to carry on the process as if it was approved by local bodies.

In addition to introduction of some new type of development plans such as culture and tourism conservation and development plans and settlement design plans existing development plan types were redefined in this by-law. In other words this by-law not only changed the range of development plans but also defined them differently when compared to Development Legislation. For instance “plan modification”, in this by-law is defined simply as the arrangements changing the functions or uses assigned to particular lands.



This by-law also lays down the guidelines to be followed within the process of plan preparation for a particular area. According to these guidelines MCT was not obliged to ask for advices and views of related public institutions regarding the area and proposed tourism investment. Instead an ambiguous power of discretion was provided to the ministry in such circumstances. Moreover we observed another example of such a discretionary approach in case of geological studies and surveys concerning the investment area. According to the related provisions of this by-law MCT does not necessarily need to assure the preparation of geological studies and surveys assessing the earthquake hazard of investment area prior to its planning process. However it is stated that geological studies and surveys, if any exist before planning process started, would be taken into account during the preparation of development plans.

In the light of the foregoing, legal arrangements in this by-law could be accepted as different forms of deregulation and liberalization of current planning and development legislation in order to enable and facilitate tourism investments. Institutional-based fragmentation of planning powers coupled with relaxed planning and development rules has been the major outcomes of this by-law. However Chamber of City Planners (CCP) opened an action for annulment at Council of State against this by-law. It was asserted by CCP that this by-law entirely had disagreements with Laws No. 3194, No. 2863 and No. 3830/3621 as well as with generally accepted planning rules and principles (ŞPO 2004a, 16). The final decision regarding this appeal was given by Council of State at 21.11.2005. Council of State, in its final decision, affirmed the agreement of the by-law with mentioned laws in general but quashed a single word in it. According to the decision given by Council of State, MCT were obliged to have geological surveys conducted prior to the preparation of every development plans.

The last legislative action concerning tourism investments and investors that will be discussed here is a by-law issued by Ministry of Public Works and Settlement (MPWS) at 30.03.2004. This by-law amended essentially an existing by-law named as “By-Law Regarding the Implementation of Coastal Act”. Among the changes made by this amendment by-law the one regarding some public properties exist along coastal areas would be mentioned here. According to the 3<sup>rd</sup> article of this amendment by-law it was concluded that by taking the advice of

related public institutions realization of tourism investments on public properties along coastal areas could be permitted. Thus some of the designated public properties along coastal areas were treated as potential areas of tourism investments. This by-law will be discussed in detail in the next section which is directly about the legislative actions concerning coasts.

Consequently, as a result of our analysis on legislative actions regarding the promotion of tourism investments and investors the following points are achieved as the common outcomes of those actions.

- a) Ministry of Culture and Ministry of Tourism were united and reorganized as a powerful and dominant public body to enable and facilitate various investments within tourism sector.
- b) Various means of support and facilities were provided to promote tourism investments and investors.
- c) Allocation and designation of public lands and properties to private tourism companies and investors has been a major one of these means. Therefore legal and institutional basis for realization of this means were formed.
- d) Necessary legal arrangements were made in order to allocate or designate public lands and properties within Special Conservation Zones (SCZs) and along coastal areas to realization of tourism investments as well.
- e) Powers of preparation and approval of development plans regarding tourism investments and investment areas were given to Ministry of Culture and Tourism in order to expedite and facilitate the realization process of investments and to remove the procedural barriers in front of property designation.

#### **6.3.4. Attempts Regarding Coasts: Promotion of Profit-Oriented Investments along Coasts**

The fourth issue appeared as a focus of interest or a domain of intervention during post-2002 period can be defined as *attempts regarding coasts*. We observed several legislative actions bringing arrangements and provisions to promote profit-oriented investments along coastal areas. With these actions

mainly the legal texts or legal provisions determining the rules and principles concerning developments along coasts were subjected to essential changes. With these legislative actions following outcomes were intended to be achieved.

- a) To provide the necessary legal and institutional basis for construction of Cruise Ports along shorelines, especially on reclaimed lands.
- b) To enable the construction of some certain commercial structures such as shopping malls, hotels and accommodations, offices, catering facilities along shorelines as parts of Cruise Ports.

We noticed 6 laws and 2 by-laws covering the modifications in related laws and by-laws in this context. The laws are Law No. 4971, Law No. 5398, Law No. 5229, Law No. 5234, Law No. 5366 and Law No. 5494. The first by-law is the one entitled as “By-Law Regarding Preparation and Approval of Development Plans within Culture and Tourism Conservation and Development Regions and Tourism Centers”. The second by-law is the one entitled as “Amendment By-Law on By-Law Regarding the Implementation of Coastal Act”.

#### 6.3.4.1. New and Amendment Laws and By-Laws about Coastal Developments

In a chronological order first law regarding coastal areas to be discussed here is Law No. 4971. This law, which was approved by GA at 01.08.2003, is an amendment law bringing various changes in several laws, including the Coastal Act (No. 3830/3621) as well. With the 26<sup>th</sup> article of this law a new additional article was inserted to Coastal Act. According to this new article it was concluded that all the necessary procedure and actions concerning coastal properties belong to public institutions which are included in privatization program have to be finished within two months following the inclusion of those institutions in privatization program. Moreover in the same article the actions and procedure defined to be finished quickly were also listed. Among them (re)determination of coastal borderlines and preparation of implementation plans should be accepted as significant arrangements. These two actions not only affect but also determine the development conditions and rights on coastal lands and properties. Thus with this legal arrangement related public bodies were given the opportunity to

precipitate the privatization process of coastal public properties and to modify the development rights and conditions on them prior to privatization.

The second legislative action regarding coastal areas has been the issuing of a by-law which was discussed in the previous section. “By-Law Regarding Preparation and Approval of Development Plans within Culture and Tourism Conservation and Development Regions and Tourism Centers”, which was issued by MCT, amended the sharing of powers regarding the approval of some coastal development plans. According to this by-law, power of approval of development plans prepared for coastal areas and reclaimed lands within tourism development regions and centers was transferred to MCT. For us, the reason for delegation of this power was to enable and facilitate the realization of some tourism investments and allocation of properties to these investments along coasts and shorelines.

One of the most essential and crucial legislative actions concerning directly the promotion of profit-oriented investments along coasts was realized in 2004. This is also a by-law issued at 30.03.2004 by Ministry of Public Works and Settlement (MPWS). This by-law entitled as “Amendment By-Law on By-Law Regarding the Implementation of Coastal Act” brought some new arrangements and provisions concerning the allocation and utilization of coasts and shorelines. As these new arrangements and provisions were highly controversial they were seriously argued and opposed by some societal and political organizations and communities.

Although this by-law was a short one with only 5 articles the arrangements and provisions brought by it were highly crucial. With the first and second articles of this amendment by-law, a new subparagraph and some new phrases were inserted to the 4<sup>th</sup> and 13<sup>th</sup> article of “By-Law Regarding the Implementation of Coastal Act”. According to these new phrases and subparagraph it was concluded that in addition to the currently allowed maritime structures such as harbors, wharfs and quays, seawalls, breakwaters, etc. “cruise ports” were also allowed to be built along the coastal strips. However cruise ports were defined as ports covering not only the necessary structures for receiving and keeping cruise ships and cruise liners but also some other tourism-oriented structures such as shopping malls, catering facilities, banking and information facilities,

accommodations and hotels, offices, etc. Thus these new provisions provided the legal basis for realization of some commercial and profit-oriented investments along coasts and shorelines.

Another subparagraph was inserted to 13<sup>th</sup> article of existing by-law with the 2<sup>nd</sup> article of amendment by-law. This subparagraph is about registered buildings exist along coastal strips and the ways and principles regarding the utilization of these buildings. According to the new arrangement brought by this subparagraph Regional Boards of Conservation of Cultural and Natural Heritage (Conservation Boards) were delegated the power of determining rules and principles concerning development rights and utilization conditions on them. It was also concluded that development plans of these areas would be prepared on the basis of the rules and principles decided by Conservation Boards. We should here note that with this new arrangement for the first time in the recent past Conservation Boards were delegated institutional powers within coastal areas and shorelines.

In addition to arrangements mentioned above the 3<sup>rd</sup> article of amendment by-law should be discussed as well. With this article two subparagraphs were inserted to 17<sup>th</sup> article of the existing by-law. First of these subparagraphs was providing some detailed explanations about the procedure concerning cruise ports. However the second one has brought a new arrangement concerning the public properties along coasts and shorelines. According to this new arrangement, it was allowed to make tourism investments such as tourism-oriented buildings and facilities over coastal lands and properties belong to public institutions, no matter they were in privatization program or not.

Legal and institutional arrangements brought by this by-law were intensely opposed and reacted especially by professional societies. These societies within their reactions and oppositions mainly emphasized that the related arrangements would give way to further developments and construction facilities along coasts especially along reclaimed lands. Moreover they asserted that these developments would probably restrict or prohibit public access to and free use of coastal areas. In addition they also criticized these arrangements as they were promoting the privatization of public properties exist along coasts and encouraging the private use of coastal structures (§PO 2004c, 9).

Chamber of City Planners together with Chamber of Survey and Cadastre Engineers opened an action for nullity against this amendment by-law at Council of State. They claimed that legal arrangements brought by this by-law had disagreement both with Coastal Act (No. 3830/3621) and the Constitution. Their appeal was justified on the ground that new arrangements would restrict and prohibit public access to and free use of coastal areas as they were concluding the allowance of realization of some private and commercial structures along coasts. In the first step Council of State decided a stay of execution for the entire amendment by-law at 05.10.2004 by referring the unlawful relationship between by-law and Coastal Act. Final decision on this appeal was given nearly a year later. Council of State concluded a decision of annulment at 12.10.2005 by stating that legal arrangements concerning cruise ports and tourism investments along coasts had a clear disagreement with Coastal Act. In other words Council of State, in its final decision, underlined the fact that rather than ensuring the application of Coastal Act the amendment by-law had brought new arrangements and provisions contrary to the Act (§PO 2005e, 25).

Nevertheless the arrangements and provisions annulled by Council of State were enforced again. The government inserted them into Coastal Act via approval of another amendment law. Law No. 5398, which was approved by GA at 03.07.2005, amended the Coastal Act crucially by inserting some new articles to it. With 13<sup>th</sup> article of Law No. 5398 a subparagraph, which comprises a detailed definition of cruise ports, was inserted to the 6<sup>th</sup> article of Coastal Act. As a result of this modification cruise ports including some additional commercial structures such as shopping malls, offices, hotel, etc. were legally defined as one of the maritime structures that could be built along coasts. The only condition was stated as the preparation and approval of an implementation development plan regarding the proposed cruise port. The only difference between the arrangements in annulled by-law and in this law is identified as the word “marinas” attached to the end of the subparagraph defining cruise ports. Hence together with cruise ports the definition was attributed to marinas as well. This should be interpreted as an attempt to provide the legal basis for realization of above-mentioned commercial structures within marinas too (§PO 2005d, 5).

Amendments made by Law No. 5398 are not limited to arrangements regarding cruise ports and marinas. Besides, this law amended the Urban Development Law (No. 3194) in a significant way. With 12<sup>th</sup> article of Law No. 5398 a new additional article was inserted to Urban Development Law as “Additional Article 3”. Provisions in this article brought another example of area-based fragmentation of current planning process and powers in Turkey. In more concrete terms, powers of preparation and modification of all kinds of development plans regarding the coastal properties belong or designated to public institutions listed in privatization program were transferred to Presidency of Privatization Administration (PPA). Besides, power of approval of these plans was delegated to Privatization High Council (PHC). Moreover in this process, roles of local governments and public institutions concerned with these properties were minimized as well. These public bodies were confined to make their institutional advices and recommendations on proposals and decisions of these plans in 15 days. On the other hand it is clearly stated in this new additional article of Urban Development Law that decisions promulgated by these plans prepared by PPA and approved by PHC shall not be modified or changed during five years following their approval.

Main opposition party, RPP, opened an action for annulment against Law No. 5398 at the constitutional court. Although constitutional court rejected the motion for stay regarding 12<sup>th</sup> and 13<sup>th</sup> articles of this law final decision for this appeal has not been given yet (Official Gazette 07.01.2006/26046).

All in all, it can be concluded that legislative actions about cruise ports has been the foremost example of attempts regarding coastal areas. The state decisively attempted to provide the legal and institutional basis for realization of cruise ports together with some profit-oriented commercial investments along coasts and shorelines. However attempts regarding developments in coastal areas were not limited to the legislative actions discussed up to now.

Next Law No. 5229 and Law No. 5234, both of which include the same arrangements concerning a certain development in a particular coastal area, should be discussed here. Both of these laws are amendment laws bringing changes in several laws. As the first one (Law No. 5229), which was approved by GA at 16.07.2004, was sent back by the President to TGNA it was discussed

once more and approved for the second time at 17.09.2004 as Law No. 5234. With the 5<sup>th</sup> temporary article of both laws an essential legal arrangement about a certain treasury property namely Haydarpaşa Port was made. With this arrangement Minister of Finance has received the free giving right of Haydarpaşa Port together with the other properties and buildings on it to Turkish State Railways (TSR). As TSR was empowered previously to sell the properties either belong or designated to it this property transfer was made to enable and facilitate the sale of Haydarpaşa Port. In addition to the arrangement concluding the transfer of the port a special or case-based planning process regarding directly to this property were also stated in the article. Ministry of Public Works and Settlement was given the ex officio powers of preparation, modification and approval of all kinds of development plans as well as the authority of licensing regarding merely Haydarpaşa Port and the related structures on it. Moreover the exercise of these powers was exempted from various rules and restrictions within Development Legislation. Besides, mandatory status of the plans that will be prepared by MPWS was emphasized in the article, for us, in order to prevent any disagreements with related municipalities. So with Laws No. 5229 and No. 5234 the legal basis for sale of a coastal public property together with the necessary legal arrangements for regeneration of it were provided.

Law No. 5366, which was approved at 16.06.2005, is another example of legislative actions concerning developments in coastal areas. This law is one of the noted urban regeneration laws enacted during our research period. The general aim of this law was defined in the 1<sup>st</sup> article as to enable and facilitate the realization of urban regeneration projects within protection areas and their related conservation zones which were believed to be old, derelict and worn. Moreover the content of these regeneration projects was also stated clearly in the 1<sup>st</sup> article. According to the related clause regeneration projects should include the (re)development of residential, commercial, shopping, cultural and leisure facilities as well as the designation of preventive measures for disaster hazards. However preparation and realization of these projects were described independent from or unrelated with the existing planning system and urban development legislation. So with this law local bodies were given the powers to define regeneration zones within “worn” protection areas and to develop and carry out projects to transform these zones into new residential and commercial centers without being amenable



to current planning and development legislation. As the provisions of this law cover all protection areas and conservation zones assumed to be old and worn it has a binding force on coastal areas as well. So this law had given the way to realization of such regeneration projects within protection areas exist along coasts and shorelines.

The last legislative action to be mentioned in this section is the enactment of Law No. 5494. With this law, which was approved at 27.04.2006, Ministry of Transport was given a new power. According to the related article of this law Ministry of Transport was delegated the powers of preparation and approval of plans regarding merely the construction of all kinds of underwater transportation systems. We accepted this arrangement as an example of institutional-based and case-based fragmentation of current planning system.

All in all, as a result of our analysis on legislative actions, which were identified as attempts enabling developments like tourism-oriented private investments along coasts and shorelines, the following points appeared as the common outcomes of those actions and attempts.

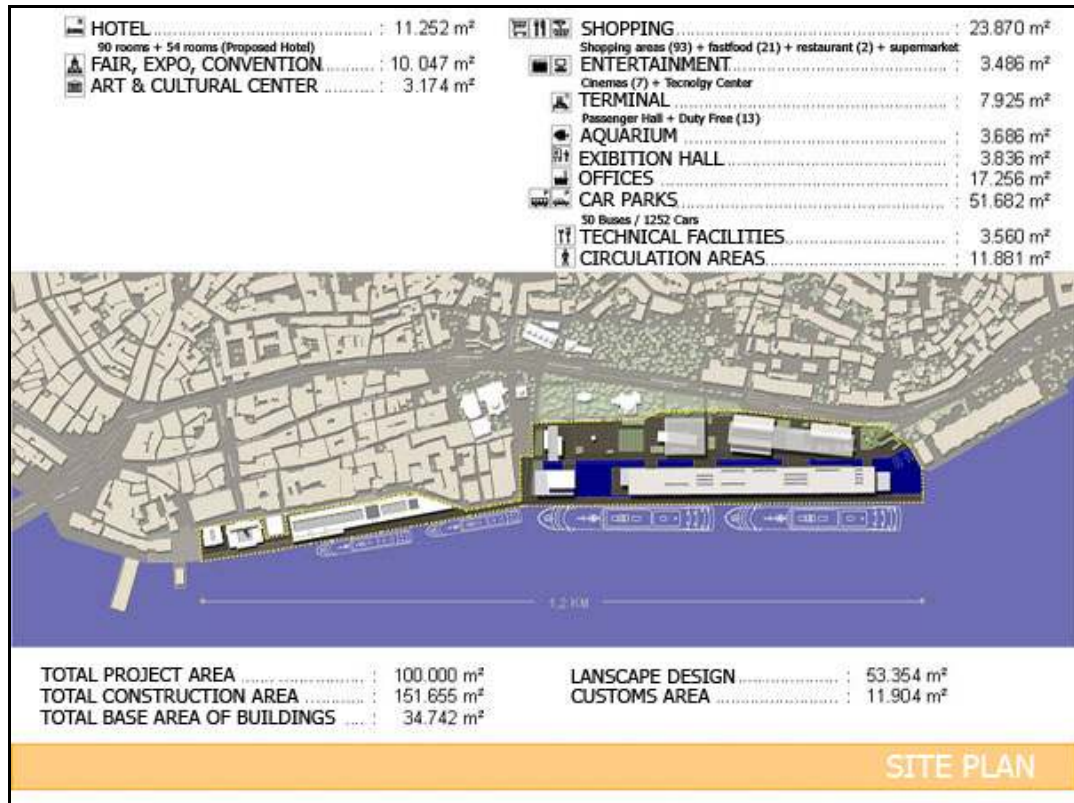
- a) Legal and institutional basis for realization of profit-oriented (tourism) investments such as cruise ports including malls, offices, hotels, etc. along coasts were provided.
- b) Case-based and special legal arrangements were made in order to enable and facilitate both the sale of some coastal public properties and realization of regeneration projects over those properties.
- c) To these ends, current planning system and urban development legislation were fragmented either on institutional-basis or on area-basis in order to eliminate the barriers and relax the restrictions obstructing further developments along coasts.

#### 6.3.4.2. Progress and Concrete Results Achieved

As a result of the related legislative actions some progress concerning developments along coastal areas was achieved after 2003. Certain projects and implementations were developed and discussed in the public opinion. Foremost

examples of these projects had been the widely debated “port projects” including the construction of cruise ports on coastal areas.

The most noted and debated example of these “port projects” is in no doubt that the one named as GalataPort Project. The two major aims of this project were to build a cruise port together with various profit-oriented structures such as malls, offices, accommodations, etc. over Salıpazarı Port in Beyoğlu (İstanbul) and to transfer the management right of proposed cruise port to a private company or investor. The project was designed for a coastal strip of 1.200 meters long in the historical quarter of Istanbul. Within the realization process of this project master and implementation development plans were prepared and approved (ŞPO 2005a, 38-39). Both of these plans included the proposals of some new functions and uses to the project area which totally covered 100.000 square meters. Although foremost one of the proposed functions was the cruise port some other essential functions were also proposed as side uses of the port. Among them it is worth mentioning the hotel, offices, several shopping structures, leisure and entertainment center and places for convention and exhibition. The figure given below displays the general site plan of GalataPort Project and some detailed information about the uses proposed within the project. The total area of construction proposed by the project is 151.655 square meters. However the area of construction proposed for terminal building of the cruise port corresponds only 5% of this total construction area. The figure obviously indicates that apart from car park areas first two functions covering the largest construction area are shopping and office uses. 16% (23.870 m<sup>2</sup>) of the total construction area was determined as places for shopping while 11% of it (17.256 m<sup>2</sup>) was determined as offices.



**Figure 6.8: Site Plan of GalataPort Project** (Source: [www.galataport.org](http://www.galataport.org), accessed in December 2007)

We should also remind here that the management right of the cruise port together with all of the side facilities was transferred to an international consortium via a sale by tenders as a part of privatization program. Royal Joint Venture, the purchaser, undertook to pay 3.5 Billion Euros in return for the management right of the port for 49 years.



**Figure 6.9: An Imaginative View of GalataPort** (Source: [www.galataport.org](http://www.galataport.org))

Chamber of City Planners opened an action for nullity at Council of State against the master and implementation development plans of GalataPort Project. Their appeal was justified on both technical and legal grounds. Apart from the technical claims they asserted that preparation and approval processes of these plans had clear disagreement with current legislation on conservation and coasts. Council of State decided a stay of execution for these plans at 07.12.2005 by stressing the disagreement between preparation and approval processes of plans and current legislation (ŞPO 2006a, 8-9). In addition to the action against development plans another annulment action against management right transfer was opened at Council of State as well.

Following the decision of stay of execution of the high court and disapproval of the bidding process by Presidency of Privatization GalataPort Project was cancelled. As a result of the persistent decision of the state to realize GalataPort Project preliminary stages and works concerning the planning and bidding processes of this project was started for the second time. However the processes have not been completed yet.

The second example of “port projects” that should be discussed is the one generally named as “Haydarpaşa Project”. Several specific legal arrangements were made in order to enable the sale of Haydarpaşa port and rail station area and to facilitate regeneration of that area following the sale. This project was prepared as a result of these arrangements. “Haydarpaşa Project” was prepared and developed in order to transform the mentioned port and station area into a so-called “World Trade Center” including various new functions and uses. Among those functions and uses cruise port again appears as the major justifying function. However the main attempt behind the project, for us, has been to enable the realization of profit-oriented investments such as office buildings, shopping malls, luxurious residences, etc. along with the cruise port.



Figure 6.10: A Press Item about Haydarpaşa Project (Source: <http://arsiv.sabah.com.tr/2004/12/05/eko112.html>, accessed in December 2007)



Master and implementation development plans for this project were prepared by Ministry of Public Works and Settlement. Although those plans were not declared to public in detail some information has taken place in the press. Moreover professional and academic societies have generally discussed the project in the light of that information. In addition to the cruise port and marina the development plans proposed the construction of 7 skyscrapers including residences and offices, 7 five-star hotels, various halls for leisure, sports and entertainment (ŞPO 2005b, 43). Like GalataPort the government intended to transfer the management right of Haydarpaşa Port to a private company following the regeneration.



**SABAH** Türkiye'nin en iyi gazetesi

HIZLI ARAMA:  ara

Son Dakika  
Yazarlar  
Günün İçinden  
» Ekonomi  
Gündem  
Siyaset  
Dünya  
Spor  
Hava Durumu  
Sarı Sayfalar  
Ana Sayfa  
Dosyalar  
Arşiv  
Etkinlikler  
Günaydın  
Televizyon  
Astroloji  
Magazin  
Sağlık  
Cumartesi  
Aktüel Pazar  
Otomobil  
İşte İnsan  
Sinema  
Turizm Rehberi  
Çizerler

**GÜNAYDIN**  
**BİZİMCİTY**  
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## Ekonomi

**KONUyla İLİŞKİLİ DİĞER YAZILAR**

- Haydarpaşa 7 milyar dolarla değişiyor
- Projede 7'nin büyüğü

### Haydarpaşa 7 milyar dolarla değişiyor

**TCDD, Hazine ve DLH arsası üzerinde yükselecek 'İstanbul-İstanbul' turizm merkezi projesi Bayındırlık Bakanlığı'ndan onay bekliyor Yatırımcılara 49 yıllığına kiralanacak arazinin imar planı İstanbul'u simgeleyecek şekilde oluşturuldu. Bölgeye 7 gökdelen, 7 otel yapılacak.**

Devlet Demiryolları (TCDD) 7 tepeli İstanbul'a 7 milyar dolarlık yatırımla kurulması öngörülen 7 gökdelenli ve 7 otelli "İstanbul-İstanbul" projesi için düğmeye bastı. Haydarpaşa, Gebze, Sirkeci ve Halkalı Üçleme projesi ve Demiryolu Boğaz Tüp Tünel Geçiş İnşaatı (MARMARAY) projesinin tamamlanmasının ardından Haydarpaşa Garı, tren işletmeciliği açısından atıl duruma düşecek.

#### PLAN BAKANLIKTAKI

TCDD, Haydarpaşa Gar ve Limanı'nı turizm merkezine dönüştürmek üzere kolları sıvadı. Bu amaçla 7 milyar dolar düzeyinde yatırımla gerçekleştirilecek 'İstanbul-İstanbul' adını alması beklenen dev yatırımla ilgili çalışmalarda da sona yaklaşıldı. TCDD; söz konusu projenin imar planını hazırlayarak onay için Bayındırlık ve İskân Bakanlığı'na gönderdi. Bayındırlık Bakanlığı'nın vereceği onayın ardından ihaleye çıkılacak. Yapı-İlet-Devret (YİD) modeliyle gerçekleştirilmesi beklenen ihalede, işletme süresi 49 yıl olarak düşünülüyor. TCDD'nin projenin uygulamaya girmesiyle birlikte yıllık 200 milyon dolar kira geliri elde edeceği hesaplanıyor.

Figure 6.11: A Press Item about Haydarpaşa Project (Source: <http://arsiv.sabah.com.tr/2005/04/29/eko108.html>, accessed in December 2007)

Haydarpaşa Project received strong reactions from professional associations as well as societal opposition. The project was criticized for bringing excessive density of development which would damage the natural and historical structure of the area as well as the unique silhouette of Bosphorus. Moreover critics were strongly emphasized that proposed functions and uses would probably restrict the public access to and free use of coastal strip within Haydarpaşa port and rail station area. We should hereby remind that 5<sup>th</sup> Regional Board of Conservation of Cultural and Natural Heritage in İstanbul declared the project area as historical protection area in 2006. As the process regarding this project had almost turned into a multivariate equation Haydarpaşa Project has not been initiated yet.

We noticed some other examples of “port projects” as well such as Egeport and Seaport. Seaport Project has been the last example. According to this project a cruise port is proposed to be built over the coastal reclaimed land in Kazlıçeşme (İstanbul). The development plans prepared for this project proposes to increase the area of existing reclaimed land to 470 acres by reclaiming 326 acres land additionally. Moreover the plans propose the construction of buildings and structures, cover an area of 705.000 m<sup>2</sup> totally over the reclaimed land. Similar to the other projects Seaport Project also includes the construction of shopping malls, convention centers, hotels and accommodations, offices, etc. along with the cruise port (<http://www.birgun.net/bolum-100-haber-50325.html>, <http://www.ntvmsnbc.com/news/228442.asp?0m=n1em>, accessed in December 2007).



**Figure 6.12: Imaginative Views of Seaport Project**

All in all, after discussing the “port projects” as concrete results of the legislative actions regarding coasts it could be concluded that these “port projects” should be accepted as attempts to realize some profit-oriented tourism and commercial investments, which are justified as being parts of cruise ports, along attractive coastal strips in Turkey.

#### **6.3.5. Urban Regeneration**

*Urban Regeneration* has been the most debated and controversial issue undertaken within legislative actions concerning the production of built environment during post-2002 period. Since 2003 this issue has come up many times due to several laws and draft bills either approved or discussed. Although various draft bills or proposal of laws were prepared and discussed none of them came into force as they were prepared. A reason for this situation can be put forward as strong reactions and oppositions made by various sections of society against these bills. These reactions and oppositions have become either the cause of repealing or revising of these draft bills and proposal of laws. However it could be stated that the desired legal arrangements about urban regeneration were realized piecemeal. In other words legal and institutional basis for urban regeneration issue proceeded by stages.

Before proceeding in this context a critical point should be discussed at first. Conceptually *Urban Regeneration* which was discussed and proposed within recent legislative actions in Turkey has been considerably different than urban regeneration which is being discussed as a tool for urban planning and urban development in the related literature. Unfortunately, in the following parts of this chapter while using the concept of urban regeneration we won't be referring to a multi-dimensional and integrated process which aims to transform an urban area either as a whole or partially into sustainable and livable settlements. In other words we won't be referring to a comprehensive process which deals with the problems of urban decline or decay in certain areas by considering the social, cultural, economic and physical improvement of those areas. Instead actions which seek to achieve generally the following goals will be referred.



- a) Physical renewal of attractive of parts of cities, particularly which are either decayed or illegally constructed, by profit-oriented built investments in order to gain from urban rents.
- b) Formation of the legal and institutional basis for the realization of self-contained public and private profit-oriented built investments independent from the existing planning and urban development system and legislation.

In this context we identified 4 specific laws and various legal provisions in different laws, all of which had come into force. These laws are Law No. 5104, Law No. 5366, Law No. 5216 and Law No. 5393. Moreover we also noticed several draft bills or proposal of laws which were not approved by GA but discussed in related public bodies and opinion.

#### 6.3.5.1. Legislative Progress on Urban Regeneration

The first legislative attempt on *urban regeneration* issue dated back to the beginning of 2004. At that time Ministry of Public Works and Settlement (MPWS) prepared two proposals of law and opened them to public opinion. First of them was “Proposal of Development and Urbanization Act” and the second one was “Proposal of Urban Regeneration Act”. The proposal concerning urban regeneration was reacted and criticized widely by related academic and professional societies as well as some NGOs and political bodies.

As a common general criticism made against this first proposal it was stressed that the concept of urban regeneration should be incorporated into the “Proposal of Development and Urbanization Act” as a planning and development policy rather than being treated as an issue to be legalized separately. Besides, this proposal was criticized for including a wide-range and a permanent amnesty for shanty settlements. It was argued that the proposal intended to realize the physical renewal of squatter settlements in such a way that every illegal occupier could benefit from the proceeds of transformation. Moreover the critics emphasized that apart from squatters the amnesty arrangement would enable the legalization of industrial areas or structures developed illegally (ŞPO 2004b, 23-25).

Another controversial issue existed in the first proposal was the method suggested to determine the regeneration areas. Instead of defining some technical and scientific criteria, for us, the proposal seemed designed to provide some arbitrary and discretionary powers to local governments in determining the areas that will be subjected to regeneration.

This proposal was also criticized for its regeneration approach. It was widely argued that this proposal of law aimed to set the legal basis for physical renewal of some parts of cities rather than to provide an integrated and a comprehensive urban regeneration approach. Urban regeneration in this proposal was largely characterized as transformation of shanty or illegal settlements into high-density prestigious residential areas by providing additional and privileged development rights and conditions to these areas. In other words urban regeneration in this context was reduced to housing construction within attractive parts of cities and to profit sharing between property owners or illegal occupiers and municipalities (ŞPO 2004b, 24).

To these ends, the entire process of urban regeneration in the proposal was designed quite autonomous from the current planning system and development legislation. The intention of the proposal, for us, has been to free some desired parts of cities from rules and restrictions of existing development legislation and to realize profit-oriented built investments within these unrestricted and freed areas. This makes us to conclude that urban regeneration in this proposal was handled as a certain form of deregulation and liberalization of production of built environment.

However all the discussions about and criticisms against the Proposal of Urban Regeneration Act has reached a concrete result. MPWS decided to incorporate this proposal into the Proposal of Development and Urbanization Act. Urban regeneration was then designed as a policy or a strategy within the proposed planning and urban development system. Nevertheless since then the new integrated proposal still remained as a proposal of law. It was neither discusses nor approved by General Assembly of TGNA.

Chronologically the second legislative action about urban regeneration has been the approval of Law No. 5104 at 04.03.2004. This law can be defined as an area-

based on a location-specific urban regeneration law. It concludes the rules and principles concerning the development and implementation processes of a particular urban regeneration project within a particular part of Ankara. Regeneration project promoted by this law aimed to renew completely the shanty settlements in the northern periphery of Ankara and to transform the area into a prestigious residential area including hotels and recreational facilities serving to whole city (ABB 2007, 10-11). Uzun (2006, 51) stresses that Law No. 5104 merely concluded the physical renewal of the related project area and defines this feature of the law as a defect. Therefore it could be stated that at the beginning of 2004, in addition to the actions concerning the preparation of a general urban regeneration law, special legal arrangements were also made in order to initiate certain projects.



**Figure 6.13: A Part of the Project Area Amenable to Law No. 5104** (Source: ABB 2007, 7)

Although Law No. 5104 is a short one with only 10 articles it includes essential provisions and arrangements. Here we will mention some of them which, for us, indicate the general perspective of the law regarding urban regeneration issue. First of all it is worth discussing the 4<sup>th</sup> article of Law No. 5104. With this article

powers of preparation and approval of all kinds of development and subdivision plans concerning the project area were delegated to Greater Municipality of Ankara (GMA). Besides, GMA was also described as the responsible authority to license all sort of construction works and facilities within the project area. In other words GMA was provided an exclusive power in the project area. However there is only an exception to this situation that is the power of approval of master development plans of project area. Although GMA was given the duty to prepare master plans it was concluded that Ministry of Public Works and Settlement was given the right to approve them. Nevertheless with the approval of Law No. 5481 in 2006 the power of approval of master plans was also transferred to Greater Municipality of Ankara.

Moreover according to the 4<sup>th</sup> article implementation of all the previous plans of project area approved prior to this law was suspended. It is also concluded in the same article that regardless of their status in existing plans all the properties within project area would be amenable to future development plans of the area. As clear, this law aimed to make the project area as a plan-free zone over which GMA, the major competent authority, could freely develop some planning decisions and development conditions.

The 5<sup>th</sup> article of this law included some essential provisions and arrangements as well. In addition to the various powers mentioned above GMA was also given the responsibility to manage and utilize the public properties exist in the project area. According to this article, all the public properties in project area except the ones actually designated for the provision of a public service were transferred to GMA. As the project area is covered by shanty settlements especially the squatters, an essential arrangement regarding the squatters was brought by this law. It was concluded in the 5<sup>th</sup> article that like the other titleholders, occupiers of illegal buildings and squatters, which were built before 01.01.2000, were given the right to purchase the new residences. This should be noted as a kind of development amnesty.

Consequently Law No. 5104 could be criticized similarly with Proposal of Urban Regeneration Act. In other words Law No. 5104 could be accepted as a pilot study of the proposal. Both of these legislative actions aimed to enable and facilitate the physical renewal of certain urban areas covered by shanty

settlements. The legal basis for this renewal was formed largely by two specific tools. First of all project areas were released from current planning system and development legislation. Second with both legislative actions amnesties were provided to illegal occupiers of public properties within project areas.

As the third step of legislative actions concerning urban regeneration local government laws, which were completely renewed in 2004, should be discussed. Greater Municipality Law (No. 5216) and Municipality Law (No. 5272/5393) provided new duties and authorities to municipalities regarding urban regeneration issue. According to 73<sup>rd</sup> article of Law No. 5393 and 7<sup>th</sup> article of Law No. 5216 greater municipalities and municipalities were given a general right of development and implementation of urban regeneration projects on anywhere they decide.

According to these articles municipal councils could decide by simple majority anywhere within municipal borders as “urban regeneration and development area”. The only criteria for deciding the regeneration areas was defined as the minimum size stated for these areas. It was concluded that regeneration areas should at least be 50.000 square meters. Therefore municipalities were authorized to develop and implement “urban regeneration and development projects” within these areas. Besides, contents and aims of the regeneration projects were also stated within the related legal provisions. It is concluded that regeneration projects should be implemented in order to rebuild and restore the decayed parts of cities, to develop residential, commercial and industrial areas as well as techno-parks and leisure facilities, to take necessary measures against earthquake hazards and to conserve the historical quarters of cities. According to us with this legal provision urban regeneration as a mode of intervention is defined so wide and ambiguous to free municipalities in some parts of cities. On the other hand there is not any provision or arrangement in these articles to connect the entire process of urban regeneration and existing planning and development legislation. In other words we did not notice any reference to any part of the entire development legislation in 73<sup>rd</sup> and 7<sup>th</sup> articles of Laws No. 5393 and No. 5216 respectively. For us, the articles and the arrangements brought by them seemed designed to provide municipalities an unrestricted right to operate within regeneration areas.

Despite the legislative progress discussed up to now another draft bill, named as “A Draft Bill on Urban Regeneration and Development”, was prepared and sent to TGNA by Council of Ministers on February 2005. This bill proposed a legal basis for development of urban regeneration projects which aim to conserve the historical parts of cities as well as to rebuild and restore the decayed and demolished quarters within urban areas. These aims sound quite similar to the ones of urban regeneration projects concluded by municipality laws. This draft bill received strong opposition and reactions from professional and academic societies during its discussions in the parliament. The bill was criticized for promoting and facilitating merely profit-oriented physical renewal processes within regeneration areas determined in an arbitrary and discretionary manner. Existing protection areas and historical sites were mentioned to be the major focus of the legal arrangements brought by the bill. Moreover it was argued that the bill generally relaxed and bypassed the current legislation on conservation in order to make some interventions and operations easier. Some sources asserted that the foremost intention behind this bill was to enable the renewal of some protection areas and conservation zones in Istanbul without being amenable to existing legislation on conservation (ŞPO 2005, 12-13). This bill was also criticized for bringing amnesty to illegal construction and occupation within regeneration areas.

Despite the strong and broad reactions and oppositions this draft bill was approved by GA with some slight changes at 16.06.2005. Name of the bill, prior to its approval, was changed as “Law on Conservation by Renewing and Utilization by Rehabilitation of Decayed Historical and Cultural Heritage” (Hereafter Law No. 5366). This law is in force since 05.07.2005. With its 1<sup>st</sup> article, the aim of Law No. 5366 is explained as to realize the renewal and utilization of worn and decayed properties within protection areas and their related conservation zones. The areas which will be subjected to regeneration and utilization processes according to this law is defined as “renewal areas”. In the first article of this law measures and forms of intervention to realize the processes of renewal and utilization were also stated. It was concluded that local governments could rebuild and restore the renewal areas and protect them against disaster hazards by developing residential, commercial, cultural, tourism and leisure areas and facilities.

Method of determination of renewal areas is another controversial issue brought by Law No. 5366. Like other legal arrangements about urban regeneration this law does not include any technical and scientific criteria concerning the determination of renewal areas which will be subjected to regeneration projects. The 2<sup>nd</sup> article of the law, which is named as “determination of areas”, only explains the procedure to be followed in determining renewal areas. According to this procedure renewal areas could be determined by decisions of municipal councils by simple majority. However this decision has to be submitted to the approval of Council of Ministers. The only criterion is that renewal areas should be within protection areas and their related conservation zones. It should also be mentioned that according to the 2<sup>nd</sup> article once a renewal area is determined and officially declared all the properties within that area, regardless of existing development rights and conditions provided to them, would be amenable to future renewal projects.

When Law No. 5366 is analyzed carefully it is understood that local governments were given nearly a full freedom in developing and implementing renewal or regeneration projects. The 3<sup>rd</sup> article of Law No. 5366 concludes the rules and principles that should be obeyed during the implementation of this law. It is simply stated in this article that renewal projects and their implementations would be prepared either by municipalities or by provincial local administrations. However several public institutions were also given duties in the implementation phase of renewal projects. Although local governments were defined as the competent authority for implementation phase they were given the right to carry out the implementation with the other public bodies such as HDA and real persons such as property owners. It was hardly noticed that there exists a connection with and a reference to current planning system and development legislation regarding the implementation of this law. The only exception to this statement is the last clause of the 3<sup>rd</sup> article. According to this clause renewal projects of properties, which will be rebuild or rehabilitated, are supposed to consist of the related “projects” defined in Development Legislation. Accordingly this clause does not refer to any kind of plans or planning processes defined in Development Legislation. Instead it merely refers to architectural and engineering projects at building scale. So it can be concluded that with the renewal projects local governments could bring and

implement land-use decisions and development conditions contrary to existing development and conservation plans of renewal areas.

Finally two other arrangements included in the 3<sup>rd</sup> article should be discussed here. This law possesses the determination of renewal areas within protection areas and conservation zones. However Regional Boards of Conservation of Cultural and Natural Heritage are the competent authorities regarding protection areas. Instead of charging the existing conservation boards it was concluded in this article that additional new boards could be established in order to approve the renewal projects. In other words due to the related provisions of Law No. 5366 MCT was given the right to establish project-based conservation boards. According to us this arrangement was made to bypass the existing conservation boards which are known as rigid and inflexible. Besides, with this article an exemption is also provided. All kinds of goods and services procurement regarding the implementation of renewal projects are exempt from Public Procurement Law (No. 4734).

The progress about Law No. 5366 continued till the end of 2005. Council of Ministers issued a by-law to ensure the application of Law No. 5366 at 14.12.2005. All the arrangements, which were accepted as examples of deregulation and liberalization of urban development and conservation processes, were also included in the by-law. Therefore instead of discussing this by-law here we prefer only to note that our findings about and criticisms against Law No. 5366 are valid for this by-law too.

Law No. 5366 and its by-law of application received essential reactions and oppositions especially from professional societies. Chamber of City Planners in its official review on this law asserted that with this law urban renewal and regeneration was reduced merely to rebuilding of worn and decayed buildings and historical quarters for purpose of gain. They emphasized that the major intention behind this law was to create new opportunities to make profit-oriented built investments within central and attractive parts of cities. To these ends Law No. 5366, according to them, was designed in such a way to relax and bypass some of the existing legislation such as development and conservation legislations (ŞPO 2005c, 16).



The last step of legislative actions regarding *urban regeneration* issue has been the proposal of law which was prepared by MPWS and opened to public opinion in 2006. This proposal included legal provisions which authorize greater municipalities to determine any area within their municipal borders as regeneration zones and to develop and implement projects which transform these zones into new residential, commercial and recreational areas. Like previous laws, proposals and draft bills on urban regeneration this proposal was also criticized for enabling the realization of profit-oriented built investments within attractive parts of cities without being amenable to existing planning system and development legislation (MO, 2006). In other words this proposal was criticized for opening up urban public lands to private ownership and for widening the market of ground rents (Karademir 2006, 60). Balamir (2006, 53) proposed to limit the scope of this bill in order to prevent the implementation of it merely to gain from ground rents.

With this proposal a new development plan type, which was named as “regeneration development plans”, was proposed. These plans were supposed to be prepared for regeneration zones and to include various decisions regarding the improvement, renewal, development and evacuation of these zones. It was also proposed that these plans should suggest the necessary decisions to satisfy the needs for housing, commercial, industrial, etc. areas within regeneration zones.

Besides, this proposal of law also included some arrangements which should be accepted as a development amnesty. For instance, it was stated in the proposal that shanty settlements and illegal buildings, which were built before 2005, within regeneration zones would be subjected to renewal and improvement processes. Finally it should be mentioned that only a single criterion was defined for determination of regeneration zones in this proposal. That is, the size of regeneration zones was supposed to be at least 5.000 square meters. This clearly meant a reduction since the value for this size was concluded as 50.000 in municipality laws.

Although several legal arrangements about urban regeneration were put into effect previously this proposal of the law was also sent to TGNA by Council of Ministers as a draft bill under the name of “A Draft Bill on Regeneration Areas” on October 2006. The reason behind the persistent demand of the government for

this bill was argued as the lack of a general legal basis for urban regeneration projects. Legal arrangements brought by the previous laws and by-laws had some certain limitations. For instance, Law No. 5366 provided a legal basis for urban regeneration projects only within protection areas and historical quarters. On the other hand according to the related articles of municipality laws (No. 5393 and No. 5216) large-scale regeneration projects, which cover at least an area of 50.000 square meters, could be realized. However this bill aimed to minimize the limitations and to provide a more liberal environment for realization of profit-oriented built investments deemed as urban regeneration projects. Chamber of City Planners asserted that this draft bill was prepared as like it was a “law of exemptions” to help local governments to get rid of current legal and institutional framework on urban built environment (§PO 2006c, 14).

With the arrangements proposed by this bill urban regeneration concept seemed to be reduced merely to a physical renewal process. This bill proposed renewal and redevelopment of regeneration zones, which would be at least 5.000 m<sup>2</sup>, in isolation from current development legislation and plans. According to this bill all the master plans and their decisions should be suspended within regeneration zones and these zones should be developed merely by being amenable to regeneration development plans.

All in all, *urban regeneration* has been one of the popular concepts which were frequently handled by legislative actions during post 2003 period. While several proposals of law were prepared and discussed some of them had come into effect. In addition to legal texts directly on urban regeneration some legislative provisions in other related laws such as municipality laws were also concluded the realization of regeneration projects. As a result of our analysis on all the legislative actions about urban regeneration the following results were achieved. These results, for us, indicate the common intentions behind those legislative actions.

- a) By the name of urban regeneration projects, it is meant to enable and facilitate realization of profit-oriented built investments in urban areas which were believed to be attractive and profitable, such as historical quarters in city centers as well as illegally occupied inner-city locations.

- b) Amnesties were attempted to be provided to illegal occupiers of shanty settlements within regeneration areas in order to evacuate the area easily by sharing the proceeds of regeneration process with illegal occupiers.
- c) To these ends, special legal and institutional bases for urban regeneration affairs, which bypasses current legislations, especially development and conservation legislations, and isolates regeneration areas from existing principles and rules of planning, were provided.
- d) As an inevitable outcome of all these progresses, the existing planning system was deregulated and liberalized.

#### 6.3.5.2. Progress and Concrete Results Achieved

As a result of the legislative actions on urban regeneration some progress occurred especially by 2004. We noticed certain regeneration projects and implementations in different cities. Some of these projects and implementations were developed according to the related articles in municipality laws (No. 5216 and No. 5393). The second legal basis of recent regeneration projects has been Law. No 5366 and its by-law of application. Below, some information about the progress concerning these projects is given.

Following the approval of Law No. 5366 various regeneration projects were initiated in several cities. According to this law, “renewal areas” determined by local councils are supposed to be approved by Council of Ministers and to be published in Official Gazette. Therefore we surveyed the archives of Official Gazette in order to find out “renewal areas” declared on the basis of Law No. 5366. This survey indicated us that starting from the enactment of the law till October 2007, total number of renewal areas declared has been 17. In other words it was found out that 17 renewal areas were determined in 7 different cities by October 2007 (Official Gazette Archives). Istanbul has the leading position in this context since majority of renewal areas are found in this city. It was noticed that 9 out of 17 renewal areas are located in Istanbul. Four districts stand out with these renewal areas. All the renewal areas in Istanbul are located in Eminönü, Tuzla, Fatih and Zeytinburnu. However Fatih as the biggest district in historical peninsula includes 5 of the renewal areas. Table given below displays the list of renewal areas in Istanbul.

**Table 6.14: Renewal Areas in Istanbul**

	<b>Name of Renewal Area or Project</b>	<b>District Name</b>	<b>Location</b>	<b>Details</b>
<b>1</b>		Fatih		Area covers various plots within 162 Building Blocks in 29 different neighborhoods
<b>2</b>	<b>“Bulğurpalas”</b> Renewal Area	Fatih	Kürkçübaşı Neighborhood	Area covers 67 plots within 4 Building Blocks (totally an area of 16.760 m <sup>2</sup> )
<b>3</b>		Fatih	Atikmustafapaşa Neighborhood	
<b>4</b>	<b>“Neslişah ve Hatice Sultan Mahalleleri”</b> Renewal Project	Fatih	Neslişah ve Hatice Sultan (SULUKULE) Neighborhoods	Area covers 354 plots and 22 registered buildings within 12 Building Blocks (totally an area of 80.000 m <sup>2</sup> )
<b>5</b>	<b>“Balat Karabaş-Tahta Minare Mahalleleri”</b> Renewal Area	Fatih		
<b>6</b>	<b>“Köyiçi”</b> Renewal Area	Tuzla		
<b>7</b>	<b>“Süleymaniye”</b> Renewal Project	Eminönü		Area covers all of the 208 Building Blocks in 8 different neighborhoods
<b>8</b>	<b>“Nişanca-Sultanahmet”</b> Renewal Area	Eminönü		Area covers all of the 140 Building Blocks in 5 different neighborhoods
<b>9</b>	<b>“Sur Tecrit Bandı”</b> Renewal Area	Zeytinburnu		Area covers various plots within 52 Building Blocks

*Source: Official Gazette Archives*

In addition to Istanbul the entire historical quarter in Ankara city center was also determined as a “renewal area” under Law No. 5366. It was named as “Historical Center of Ankara Renewal Area”. Although it has been the only renewal area in Ankara it is essential in terms of its size and location. It totally covers an area of 2.1 million square meters in and around Ulus. Moreover it should be noted that a new Regional Board of Conservation of Cultural and Natural Heritage was established special to the renewal area in Ankara.

Apart from the renewal areas determined in Ankara and Istanbul 7 different renewal areas were determined in 5 other cities as well. Among them Karaman stand out with 3 renewal areas. The table given below indicates some detailed information about the rest of these renewal areas.

**Table 6.15: Other Renewal Areas**

	City	Name of Renewal Area	Location	Details
1	Karaman	“Aktekke Cami ve Müze Çevresi”		
2	Karaman	“Merkez Kale Çevresi”		
3	Karaman	“Merkez Topucak Mahallesi”		
4	Samsun	“Büyükşehir Belediyesi”	Kale and Ulugazi Neighborhoods	Area covers 14 plots within 4 Building Blocks
5	Kütahya			Area covers various plots and Building Blocks in 12 different neighborhoods
6	K.Maraş			Area covers 708 plots within 25 Building Blocks in 2 different neighborhoods
7	Çanakkale	“Fevzipaşa Mahallesi”		Area covers various plots within 70 Building Blocks in 3 different neighborhoods

*Source: Official Gazette Archives*

The information given above indicates that Law No. 5366 has been the basis of regeneration and renewal projects mainly within historical quarters of some cities.

Besides 73<sup>rd</sup> article of Municipality Law (No. 5393) and 7<sup>th</sup> article of Greater Municipality Law (No. 5216) were constituted another legal basis for development of urban regeneration projects. With these articles municipalities were given the authority to determine any area within municipal borders as “urban regeneration and development area” and to develop regeneration projects within these areas. It was observed that several projects and implementations were initiated according to these articles and legal arrangements within them during the last years. Although there are examples of such projects and implementations in almost every city only the projects initiated in Ankara will be mentioned here.

The information provided by Greater Municipality of Ankara on their website indicates that 43 different areas were determined as “Urban Regeneration and Development Areas” (URDAs) in Ankara on the basis of the authority given by municipality laws. Total area covered by these URDAs is approximately 310 million square meters. In other words Greater Municipality of Ankara (GMA) initiated urban regeneration and development projects over an area of 31.000 hectares during the last 3 years. When the number and size of these regeneration areas are considered one can assume that quite a lot of problematic areas in Ankara were waiting to be regenerated. However when the complete list of these areas is examined some interesting points become clear. For instance a group of these regeneration areas are vacant peripheral lands over which residential and commercial areas will be developed. Besides, there are also examples of inner city vacant lands and plots within these regeneration areas. They will also be subjected to profit-oriented built investments. These examples indicate that some of these regeneration projects are actually attempts promoting a development process rather than a transformation process. Bayram (2006, 9) stresses that recent projects in Ankara cannot be defined or named as urban regeneration projects since their purpose are merely to develop high-rise residential areas. According to him, by using regeneration as a popular and an affirmative concept the real intention of these projects, which is to transfer urban rents to certain sections of the society, is attempted to be covered.



**Figure 6.14: Two of Urban Regeneration and Development Areas in Ankara**  
(Source: Website of Greater Municipality of Ankara, accessed in December 2007)

It should also be mentioned here that some of these regeneration projects were attempted to be realized by GMA much before enactment of the new municipality laws. However most of these projects were sued for being contrary to public interest and to master plans of the city. Nearly all the decisions and implementation plans concluding these projects were annulled by the courts. İmrahor Valley, Güneykent and Temakent regeneration projects are examples of them. Therefore it could be concluded that GMA has been using the legal basis provided for urban regeneration projects in municipality laws as a basis for realization of self-contained urban development projects. Urban regeneration in case of Ankara seems to be reduced to development and implementation of built investments in isolation from the current planning system and development legislation.

#### **6.4. CONCLUSION**

As a result of the analysis made in this chapter it is clearly understood that considerable changes in legal and institutional framework for the production of urban built environment were introduced after 2002. 78 laws, all of which either changed or renewed the legislations concerning (urban) built environment, were approved by General Assembly of TGNA. However 15 of these laws were sent back by the President to be discussed once more. 9 of the remanded laws came into effect as they were discussed and approved for the second time. Therefore it

could be concluded that totally 63 new and amendment laws regarding the production of built environment were enacted during the post-2002 period. When important by-laws, circulars, etc. are considered total number of new legal texts, which were enacted after 2002, rises to 74.

As new legal arrangements have made considerable and essential changes they received strong oppositions and reactions from professional and academic societies as well as some societal groups. A concrete indicator of this situation is the number of actions opened against these arrangements. We noticed that 34 out of the total 74 legal texts were sued for annulment. Majority of these nullity actions (28 in quantity) were opened at the constitutional court on the basis of disagreement with constitution. Main opposition party, which is Republican People's Party (RPP), played the leading role in the applications for judicial review. RPP opened actions for annulment at the constitutional court against 28 laws enacted between 2002 and 2007. Even, the actions against 5 of 28 laws were been the common actions of main opposition party and the President. Moreover recent legal arrangements were also reacted and criticized by professional chambers and associations. Some of these reactions and oppositions were also resulted in several appeals to judicial authorities. It was noticed that professional chambers sued 6 of the 10 by-laws issued after 2002 at Council of State. Based on this information it could be asserted that post-2002 period can be distinguished with considerable and essential changes in legislation regarding built environment and strong societal and political confrontation and opposition against these changes.

After analyzing all the laws and by-laws either approved or issued during our research period 198 legal arrangements were identified as examples of deregulation and liberalization. In other words with all the legislative actions between 2002 and 2007, existing system and legislation regarding urban built environment were deregulated and liberalized with 198 separate arrangements. It was also noted that these arrangements could be classified under four broad categories such as *Land Policy*, *Built Environment Production*, *Amnesties for Unauthorized Developments* and *Planning and Urban Development Legislation*. Among these categories *Planning and Urban Development Legislation* had the leading position as it included majority of the legal arrangements. It was observed



that 76 legal arrangements out of 198 could be grouped under this category. Among 76 legal arrangements the most frequent type of arrangement appeared to be “provision of unlimited and unrestricted powers of plan preparation and approval to certain institutions”. This means that during our research period considerable amount of legal provisions or arrangements were made to delegate powers to certain institutions to prepare and approve development plans without being amenable to current urban development legislation. Besides, legal arrangements concluding the fragmentation of planning authorities on the basis of specific areas and particular institutions has been the other frequently realized type of arrangements under this category.

*Land Policy* has been the second biggest category under which legal arrangements were grouped largely. Under the category of *Land Policy* 58 legal arrangements were identified as examples of deregulation and liberalization. The most frequent type of arrangement, among these 58 legal arrangements, is “sale of properties designated for a public service provision or to a public institution”. The other two categories, which are *Amnesties for Unauthorized Developments* and *Built Environment Production*, included totally 64 legal arrangements. 20 of them were grouped under the category of amnesties as they were concluding different opportunities and means to legalize shanty settlements. *Built Environment Production*, which includes legal arrangements concerning urban regeneration, housing production, mega-projects, etc. appeared to be another essential category. We identified 44 legal arrangements suitable to be grouped under this category. Among these 44 arrangements the most frequent types of arrangement were determined as promotion of profit-oriented mega-projects and as promotion of several types of urban regeneration projects.

Nevertheless our analysis made in this chapter was not limited to the categorization and frequency analysis of legal arrangements. Five different issues were determined and discussed as the major fields of deregulation and liberalization. In other words it was stated that with all recent legal arrangements some new or revised channels of accumulation and circulation were provided to private sector within the production of built environment. Among these channels mainly five of them were stressed and examined.

The first issue that was discussed as a major field of deregulation and liberalization has been the *sale of designated public properties*. Considerable amount of legal arrangements were realized to enable and facilitate the sale of public properties which were either designated to public services or to public institutions. Moreover these arrangements, together with the sale process, have also concluded the realization of some profit-oriented regeneration projects over these properties. Our examination on these arrangements clearly indicated that the state has come up with a certain policy for designated public properties and their lands. This policy covered the sale of some public properties equipped with privileged development rights and conditions in return for high sales revenues. It should also be mentioned that the sales revenues were declared to be spent on provision of new public services and utilities. Due to the progress and concrete implementations occurred in this context it could be concluded that this policy has mainly succeeded its goals and motives.

As a second major field towards which recent legislative actions were oriented we determined and examined *promotion of mass housing production* especially by the public sector. The related legal arrangements indicated that the government preferred to participate massively into housing sector via Housing Development Administration. To this end, HDA was given considerable amount of new duties, authorities and functions in order to be empowered and activated. Therefore in addition to its passive role as a (de)regulator the state has attained an active intervening role within housing production.

Legislations regarding *tourism investments* and *coastal areas* were also touched by the state in a deregulatory way after 2002. Several connections and links within the legal arrangements concerning both of these fields were observed. Like in many countries tourism facilities and activities has always provided attractive and profitable investment opportunities for private sector in Turkey. The major reason for this is the variety of assets and resources that could be subjected to tourism investments in Turkey. Among these assets and resources, coastal areas as well as natural and historical heritage areas are of vital importance. It is a well known fact that both domestic and foreign tourism investors have always shown great interests in these areas. Our examination indicated that basic intention behind recent legal arrangements regarding tourism investments and coastal

areas has been to enable and facilitate the realization of various sorts of tourism investments within coastal zones and natural and historical heritage areas. In most of the related laws and by-laws several legal provisions bypassing or relaxing conservation measures and building restrictions in both coastal areas and special conservation zones were noticed and identified. Moreover with these provisions planning system as well as planning rules and principles regarding these areas were deregulated and liberalized.

*Urban Regeneration* has almost been the symbol of deregulation and liberalization attempts during post-2002 period. Although several draft bills and proposals of law about urban regeneration were prepared and discussed two of them were enacted. In addition to these laws with two articles of Municipality and Greater Municipality Laws a crucial legal basis was provided for urban regeneration projects. Our examination on all the legislative actions about urban regeneration indicated that these actions shared a common aim. That is to enable and facilitate profit-oriented built investments and physical renewal activities which are not easy to realize in accordance with the existing planning controls and urban development legislation. Recent examples of urban regeneration projects in Ankara provide sufficient bases to prove this claim. Considerable amount of these projects cover development activities over vacant peripheral or inner-city lands rather than a regeneration process.

What is more, planning controls and urban development legislation were either bypassed through urban regeneration laws and authorities or relaxed by some legal provisions and arrangements. It was noticed that several provisions and articles enabling preparation of development plans without considering the current planning controls and development rules and restrictions were enacted. Besides, institutional-based or area-based planning powers were also delegated to some institutions regarding certain implementations and cases. Housing Development Administration, Ministry of Industry and Commerce and Presidency of Privatization Administration are examples of the institutions which were given powers of plan preparation and approval after 2002. Northern periphery of Ankara, TGNA dwellings and Haydarpaşa Port are the noted examples of area-based planning powers.

In the light of the foregoing it is now possible to answer the questions posed in the beginning of this chapter. First of all, considerable and essential modifications were made in the legal and institutional framework concerning the production of built environment. However these modifications, instead of intending to solve the existing problems and to remedy the current shortcomings of the system, made in such a way to deregulate and liberalize planning system and urban development legislation. For instance, "Proposal of Development and Urbanization Act", which was prepared by MPWS to develop and constitute a better planning system and development control, was not even sent to TGNA as a draft bill. While several legislative provisions which deteriorate and fragment the current system were enacted one after another. Besides, it was also noticed that most of these recent legislative actions could be matched with some specific and concrete projects and implementations. This enables us to conclude that some of the recent legislative actions were initiated and/or shaped by the practical and executive demands and attempts.

Consequently, growth in construction activities and the processes of deregulation and liberalization of planning system and development controls seem to have occurred in tandem during post-2002 period in Turkey. The growth seemed supported by the legislative actions which we accepted as examples of deregulation and liberalization. However it is not appropriate to state or conclude that the overall growth in the construction activities after 2002 has been directly and completely related to the legislative actions and transformations argued in this chapter. Although various and influential concrete implementations and projects related to these actions were realized they cannot be accepted as the sole determinant of or factor behind the recent construction boom. In addition to the direct consequences and influences of the legislative actions and their implementations some other factors were also contributed to the boom. These factors were discussed in the previous chapter. Among those factors macro-economic conditions and policies, which provided considerable amount of national and global finance to construction and real estate activities, have been crucial. The availability and increasing usage of mortgages due to low rates of interest have contributed much to construction activities. Therefore it is worth mentioning the recent legislative actions and transformations as one of the crucial factors behind the boom. In other words the recent boom should be accepted as the

result of all these factors and their combination. However the indirect consequences and influences of the state intervention in terms of deregulation and liberalization should not be ignored. It is appropriate and significant to assert that all the recent legislative actions, apart from their direct influences and contributions have affectively created a “good business climate” which probably evoked and provoked the money capital searching a field to flow into. Post-2002 period in Turkey can be entitled with this “good business climate” in property and real estate sectors.

## CHAPTER 7

### CONCLUSION

This final chapter emphasizes the conclusions of this thesis. This chapter consists of four parts. In the first part, we summarized the discussions that we have made and findings that we have reached in previous chapters. Second part covers an essential debate. In this part, theoretical arguments within *capital switching approach* are reconsidered in the light of the findings and results of our research. In the third part, the reader will find our recommendations for further studies on capital accumulation and urban processes. Finally, in the fourth part we made some policy implications concerning the planning controls and urban development system in Turkey.

#### 7.1. SUMMARY AND FINDINGS OF THE RESEARCH

Like many of the other theses and research in the field of urban studies this thesis aimed at investigating the dynamics of urban spatial change. However in order to tackle with the broad nature of this goal we confined our study to certain elements and dimensions of urban spatial structure. While production of built environment excited our interest much as a certain dimension of urban spatial change economic processes have been the foremost interesting elements of urban spatial formations for us. Therefore the aim of this thesis is refined *as the investigation into the production of urban built environment with reference to capital movements, such as accumulation, concentration and transfer*. In other words throughout this thesis, we attempted to justify a noted statement arose out of discussions on Turkish urbanization during post-1980 period. That is, the involvement and participation of corporate and large capital groups into the production of urban built environment after 1980 as a result of the restructuring of Turkish economy.

With these aims and statement in mind, in the second chapter we constituted the theoretical framework of the thesis. In this chapter, approaches and arguments

discussing urban processes with reference to capital accumulation were investigated. The most influential one of these approaches is in no doubt that *capital switching approach*. According to this approach, in a capitalist economy overaccumulation problem which arises in primary circuit of capital accumulation is attempted to be overcome by switching the excess capital to some alternative investment fields. Among these fields, production of urban built environment, which is defined as the secondary circuit of capital accumulation, is assumed to be the first and the foremost field of new investments. In other words, according to the mainstream arguments of capital switching approach, urban areas and urban processes under capitalist mode of production, together with all their other functions, serve as an alternative investment field by constituting one of the major circuits of capital accumulation.

However the above-mentioned relationship between capital accumulation and urban processes was examined and criticized by several authors and researchers. They, on the basis of the findings of some case studies, argued that this relationship should not be conceived as an automatic and an uninterrupted process, which occurs merely in case of an overaccumulation problem. Instead their arguments and findings highlight the fact that the relationship between capital accumulation and urban processes are open to impacts from certain factors. These factors have potentials to determine the form, direction, level and timing of capital flows into secondary circuit. We preferred to categorize these factors into two major groups.

First group, which we named as *urban rents and property relations*, covers factors like land ownership patterns, property rights, urban rent levels, forms of urban ground rents and their interactions within a particular locality. These factors have direct impacts on exchange-values attached to properties in urban areas and (re)distribution of these values. Therefore it should be underlined that in a particular city, volume and direction of capital flows into the production of built environment would be determined or at least affected by conditions regarding urban rents and property relations special to that city.

Second group, which we named as *governing functions and mediation*, covers factors like rules and regulations concerning built investments and availability of financial means, which are generally related to the roles and policies of state

(local & central) and mediating institutions. While factors regarding *urban rents and property relations* affect exchange-values in urban areas, factors concerning mainly the state's roles and policies make crucial impacts on the conditions determining or framing the process of capital switching between circuits. In more concrete terms, to organize and carry out a balanced and a feasible process of capital switching capitalists would need the support of state's apparatus and necessary mediating institutions. Thus roles and policies of financial and state's institutions should be highlighted as the second group of factors determining or affecting the volume and direction of capital flows into the production of built environment.

Following the theoretical arguments and discussions, we made an introduction to the Turkish context in the third chapter. This introduction was based on the analysis and evaluation of economic and spatial structures in Turkey of the recent past. The analysis made in the third chapter indicated that economic system in Turkey was dominated consecutively by two different capital accumulation regimes after 1950s. First of all, Import-Substituting Industrialization (ISI) strategies were implemented intensely between 1960 and 1980. However these strategies were replaced with the strategies of Export-Oriented Growth Model (EOG) after 1980. Each of these regimes shaped the economic system and economic policies in very different ways due to their structural differences. While economy gained an inward-oriented structure during the first period it was opened to international commodity and financial markets during the second period.

According to our analysis of the spatial structure of Turkey, it was concluded that both of the periods mentioned above could be distinguished as separate periods in spatial terms as well. In other words dynamics and features of urban development have been quite different before and after 1980s in Turkey. The state chose to allocate nearly all of its resources to support and promote industrialization policies during the ISI period. This policy gave rise to scarcity of capital to finance the production of urban built environment as well as the provision of basic utilities in urban areas. In other words, state promoted primary circuit of capital accumulation at the expense of secondary circuit between 1960 and 1980 in Turkey. Similarly corporate capitalists, who were satisfied with high levels of profits in industrial sector, did not tend to invest in the production of built



environment during the same period. Therefore under such circumstances the production of built environment was organized and realized by the activities of urban dwellers (such as squatter builders, landowners, etc.) and petty entrepreneurs (such as petty contractors, dolmuş owners, etc.).

However the whole picture seems to have changed after 1980. First of all, it is worth mentioning that the state changed its policies and choices regarding urban processes. The state, especially after 1983, intervened in the urban processes with several new instruments and policies. Not only new legislations, policies and institutional arrangements were introduced but also the amount of public resources allocated for the production of built environment and urban infrastructure was increased. Decentralization of planning powers, empowerment of local governments, provision of squatter amnesties, foundation of mass housing administration and fund were the foremost new developments of 1980s. Moreover non-state actors operating in the production of urban built environment seemed varied after 1980. Large firms and corporate capitalists who were interested mostly in industrial production during ISI period started to take part in urban processes with the implementation of EOG strategies. Under these circumstances the production of built environment started to excite the interests of both the state and capitalists more than the previous period and developed qualitatively and quantitatively during post-1980 period.

Third chapter enabled us to conclude that the post-1980 period of urbanization in Turkey provides a significant case to test arguments of capital switching approach. Therefore we conducted a macro-level inquiry comprising the whole country as a single spatial unit in the fourth chapter. This inquiry, which we named as a macro-analysis, focused specifically on post-1980 period and aimed at analyzing the development process of construction sector both quantitatively and qualitatively during this period. By doing this we intended to determine the fluctuations of construction activity constituting different growth and decline trends and the dynamics and factors behind these fluctuations and trends.

The macro-analysis mentioned above revealed that in case of construction activity after 1980, three different sub-periods including either growth or decline trends could be distinguished. Moreover major determining factors behind these different sub-periods and trends appeared to be the role of the state and macroeconomic

conditions and policies. In other words we concluded that the state intervention and related policies towards the construction sector have been the most important determinants of capital flows in the production of built environment in Turkey.

The first sub-period, which is defined as **a period of growth or boom period, covers the years 1983-1993**. In this sub-period, following progress and policies about macro-economic situation and urban spatial structures were observed as the foremost ones in our context.

- a. National economy was opened to international markets and communities. Domestic commodity markets were attempted to be articulated to international commodity markets. Since exporting was accepted as the major instrument of economic growth exports of domestically produced goods and commodities were promoted and encouraged. The two major means of this encouragement have been generous financial incentives and reduced labour costs.
- b. A rapid growth in the production of built environment, especially in housing production, was achieved through massive state intervention and support. Major forms of state intervention and support have been the provision of development and squatter amnesties, foundation of mass housing administration and mass housing fund, decentralization of planning powers, provision of substantial amounts of public finance to housing production and to infrastructure and transportation investments.

The second sub-period, which is defined as **a period of decline or bust period, covers the years 1994-2003**. It should be noted that this decline has deepened and intensified especially after 1997. In this sub-period, following progress and policies about macro-economic situation and urban spatial structures were observed as the foremost ones in our context.

- a) In addition to commodity markets, financial markets were also integrated to international and global financial markets. Domestic financial markets were liberalized and thus full freedom was provided to foreign financial capital flows in and out of Turkey. However national economy has gained

an instable character and faced several serious macro-economic crises following this financial liberalization.

- b) The policy based on encouragement and support of exporting via reduced labour costs has reached its limits. Working classes have received high rates of wage increases at the end of 1980s. Thus major policy instrument and means to support and encourage exporting during this period had been the generous financial incentives and subsidies provided to export sector. However the state has preferred to finance these fiscal incentives and subsidies by borrowing, especially by domestic borrowing.
- c) An essential decline in the production of built environment occurred due to withdrawal of state support and worsening of macro-economic balances. The state not only reduced the amount of public infrastructure expenditures and built investments but also curtailed the credits supplied to housing production. Besides, high rates of inflation and interests have given way to increases in construction costs and increased the attractiveness of securities markets compared to any other outlets.
- d) This rapid and steady decline in construction activities was intensified by several macro-economic crises occurred after 1994 and the two earthquakes of 1999.

The third sub-period, which can be defined as **a period of growth or boom period, covers the years after 2003**. In this sub-period, following progress and policies about macro-economic situation and urban spatial structures were observed as the foremost ones in our context.

- a) Macro-economic policies have been changed. A new structural reform program, which was entitled as “Programme for Transition to a Strong Economy” was initiated. This programme suggested the state to go after a speculative economic growth originated from increasing volume of foreign trade and financed by borrowing from various foreign sources. In this regard, low rates of inflation and foreign exchange coupled with relatively high rate of real interest were supposed to guarantee and promote foreign financial capital inflows.

- b) A rapid growth in the production of built environment, which is not only limited to housing sector this time, has started under intense support and involvement of the state. Besides, low rates of interests and inflation coupled with the availability cheap and abundant finance opportunities have contributed to this growth essentially. The amount of mortgages supplied and the number of mortgage users have increased rapidly after 2003.
- c) Devaluation of properties and assets in urban property markets during the decline of 1990s has contributed to this growth as well.

Consequently, in light of the foregoing evaluation and on the basis of the development process of construction sector during post-1980 period, it is appropriate to conclude that **Hypothesis 1** is not valid or cannot be justified in the context of Turkey. We did not find enough evidences to support or prove that there is counter-cyclical relationship between primary and secondary circuits. Instead of a counter-cyclical relationship, we observed simultaneous growth and simultaneous decline in both of the circuits. The housing construction boom of 1980s has taken place while some primary circuit activities such as export-oriented sectors and the economy were growing. Likewise, the decline in construction activities in the late 1990s has taken place in the same period with the decline in the productive sectors of the economy. On the other hand, the macro-analysis indicated us enough evidences to justify **Hypothesis 2**. This means that the relationship between primary and secondary circuits are highly influenced by the supportive policies and roles performed by the state. We observed that there exists a close relationship between public policies and private built investments in Turkey. In other words, the major group of factors, which determine and affect the volume and direction of capital flows into secondary circuit, appear as *governing functions and mediation* in Turkish case. The state, by means of related policies and strategies, seems to have a critical determining power on the process of capital switching in Turkey.

In the light of these findings and conclusions, we directed our attention to make a detailed analysis of the relationship between the state and capital around the production of urban built environment. In other words, we aimed at identifying the specific roles performed by the state and the impacts of these roles on the growth

of investments in built environment in the second stage of our research. By doing this, we intended to identify the forms of state intervention and support in case of capital switches into the secondary circuit. In this context, recent construction boom, which started after 2003, provided us a useful and a productive opportunity for research. In the fifth chapter, we examined and evaluated the recent boom in order to define the distinct features and characteristics of it. It is worth mentioning that recent construction boom can be distinguished from the previous one with some respects. First of all, current construction boom is not only limited to the growth in housing sector. Together with housing production, construction of shopping malls and offices, tourism investments, etc. were also contributed to the recent boom. Secondly, it should be mentioned that opposite of the construction boom of 1980s, recent boom seems to be financed by global capital inflows as well. We noticed that the amount of global capital invested in real estate sector in Turkey increased enormously after 2003.

The final stage of our research is presented in the sixth chapter. In this stage we had a close and a careful look at the relationships between the state and capital established during the recent construction boom. Specifically we confined our attention to modifications and adjustments made in the legislations regarding the production of built environment in such a way as to encourage and liberate the market forces. First of all, we surveyed all the legislative actions that have taken place after 2002 in order to determine the actions directly related to the production of built environment. Afterwards all the related legislative actions including laws, by-laws, circulars, etc. were examined and evaluated in detail. The aim of this examination and evaluation has been to present all the new legal arrangements which could be accepted as different forms and examples of deregulation and liberalization. Moreover we also identified some fundamental issues as the major domains or fields towards which these legal arrangements were directed. As the final step of this research we argued these issues together with the concrete implementations and progress concerning them.

The results and findings of the second stage of our research indicated that there occurred an intense state intervention during the recent construction boom after 2003. An essential part of this intervention has been a direct contribution to the production of urban built environment. By means of Housing Development

Administration, considerable amount of mass housing projects was initiated in almost every city. The state intervention during the recent boom has also covered the deregulation and liberalization of legal and institutional framework concerning the production of built environment. We can assert that the main driving force of the deregulation and liberalization process has been to provide the market forces and state's institutions more freedom in determining the location and volume of built investments, especially the speculative ones.

Moreover another critical form of state intervention has been to increase land supply for profit-oriented built investments. Various new legal arrangements were made to enable and facilitate the sale and allocation of public lands equipped with necessary development rights and conditions to realize built investments on them. Besides, the content of these sales and allocations was defined large enough to cover not only vacant public lands but also forests, coastal areas, allocated public properties, etc.

Finally it is worth mentioning that during the recent boom, special legal and institutional arrangements concerning particular speculative investments and mega-projects were made. Coastal areas have been the most common subject of these arrangements.

All in all, findings and results presented and discussions made in the sixth chapter reveal that a general condition for capital flows into the secondary circuit in the Turkish case is the existence of massive state intervention and support. In other words, Turkish case enables us to conclude that the state as well as the capital has a leading role in organizing and executing the entire process of capital switching. The findings that we have reached in the second stage of our research enable us to state that **Hypothesis 4 and 5** are justified in the context of Turkey. In the following part we will discuss the theoretical arguments in light of these findings.

## **7.2. RETHINKING THE THEORETICAL APPROACH**

When post-1980 period of urbanization in Turkey is examined two different sub-periods stand out with substantial growth in the volume of the production of built environment. In other words, it is a clear fact that there occurred two sub-periods

during which substantial amount of capital flowed into construction activities after 1980 in Turkey.

First one of these sub-periods covers the years 1982-1988. On the other hand the second period covers the years after 2003. It is worth mentioning that the second growth period or boom is not over yet.

In the light of the previous discussions regarding the dynamics and factors behind these growths we can conclude that both of these sub-periods have some features and characteristics in common.

1. First of all, in both of these periods governments have been powerful single-party governments having an absolute majority of parliamentary seats. During the first sub-period it was the Motherland Party (MP) ruling with 45% of the suffrage. On the other hand, Justice and Development Party (JDP) has been the ruling party with 34% and 46% of the suffrage successively since 2002. Both MP and JDP are right wing parties strictly devoted to neo-liberal ideology and policies. During both of these sub-periods these ruling parties attempted to restrict the roles that the state can play in the economy and to favor privatization of public properties and enterprises.
2. Secondly, in both of these periods macro-economic system and policies have undergone essential changes. In other words, both sub-periods cover the initial efforts and years of neo-liberal restructuring in the recent past. During the first period, MP strictly and devotedly implemented and executed the reforms and policies of neo-liberal restructuring, which was declared at 24<sup>th</sup> of January 1980. Series of reforms, which were designed to shift the economy from an inward-oriented and a close model to an open and a free market-based model, were implemented. On the other hand the second sub-period corresponds to post-crisis period of the economic crisis of 2001. During this period, JDP has adhered strictly to the reform program initiated by Kemal Derviş, finance minister of the time, and named as "Programme for Transition to a Strong Economy". Major goals of this reform program have been to reduce government controls on foreign trade

and investments, to privatize the publicly-owned enterprises and to open up various sectors to foreign participation.

3. Thirdly, in both of these sub-periods legal and institutional framework concerning the production of urban built environment has undergone essential and radical modifications.

In this first period, planning and urban development system was subjected to a radical reform. With the enactment of Urban Development Law (No. 3194), which was entirely a new law, planning powers were decentralized. Municipalities were delegated the powers of preparation and approval of development plans. As MSPW was given an ex-officio power of plan preparation and approval due to the 9<sup>th</sup> article of Law No. 3194 we prefer to label this decentralization as a “**selective decentralization of planning powers**”. Local government system was also subjected to changes during first sub-period. With the enactment of Law No. 3030 a two-tier municipal system was established within metropolitan cities. Moreover new laws and policies regarding housing sector were also introduced during this sub-period. With the enactment of Law No. 2985 new financial means were provided to housing sector via establishment of “Mass Housing Fund”. In addition to the Fund, as a new public body within housing sector, Housing Development and Public Participation Administration (named as Housing Development Administration lately) was also founded. The main intention behind these arrangements was to provide public support for housing and housing production in both financial and technical terms.

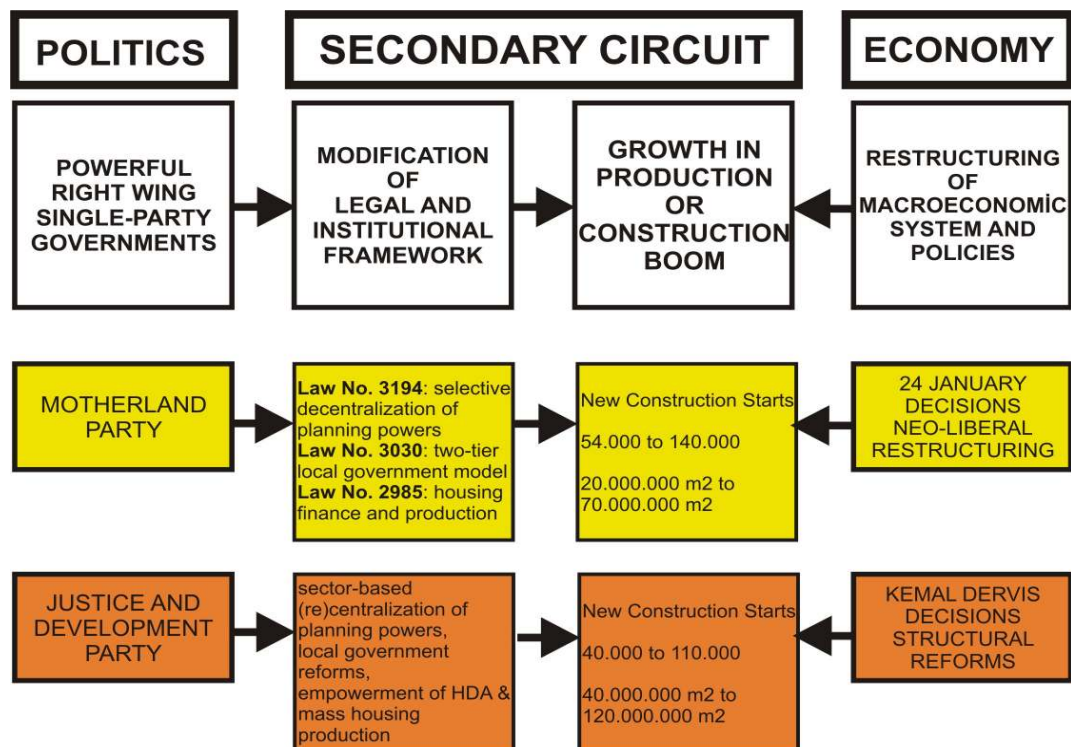
On the other hand during the second sub-period most of the above-mentioned fields and arrangements were subjected to further changes and modifications. First of all, local government system was restructured in such a way to empower municipalities against central public institutions. However in metropolitan cities, greater municipalities were empowered against the district ones and were delegated most of the authorities concerning the metropolitan area. Housing sector, especially mass housing production, has been another field which was



subjected to essential changes and transformations during the second sub-period. The scope of Housing Development Administration's activities was extended and the HDA was assigned as the only competent authority in housing production and land development. With these new arrangements, construction of considerable number housing units were planned and commenced by HDA, including not only social housing units but also profit-oriented luxurious residences. Moreover planning system and development controls have undergone some substantial and crucial changes during the second sub-period. The major outcomes of these changes have been the area-based and the sector-based fragmentation of current planning and urban development system. Various laws or legal arrangements, which concluded the delegation of planning powers within particular areas or to specific institutions, were regulated. Besides, some public institutions mainly MPWS were given the rights to prepare and approve development plans without considering the current planning controls and development rules and restrictions during this period. According to us, the entire changes and modifications about planning and urban development system should be labeled as "**sector-based (re)centralization**".

4. Fourth, in both of these sub-periods there occurred massive state intervention in the production of built environment. The state actively involved in secondary circuit via several means and instruments. Among these means and instruments, development amnesties, mass housing production and housing finance, urban regeneration have been the foremost and widespread ones.

The figure given below represents the above-mentioned arguments regarding the recent two construction boom periods.



**Figure 7.1: Summary of Post-1980 Construction Booms in Turkey**

Apart from the common features and characteristics of the two sub-periods, ruling parties in these periods also have features in common. Although both parties (MP and JDP) described themselves as centre-right conservative parties they both had difficulties to identify themselves with the tradition of Democrat Party. MP experienced this difficulty since it was established with the permission and mercy of the military junta. On the other hand, the Islamist origin and roots of its core cadres brought this identification problem to JDP. As both parties had the difficulty to base their political discourses on the traditional right wing discourse of Turkish political life they portrayed themselves with new discourses and policies. There are common points and connections between these policies and discourses.

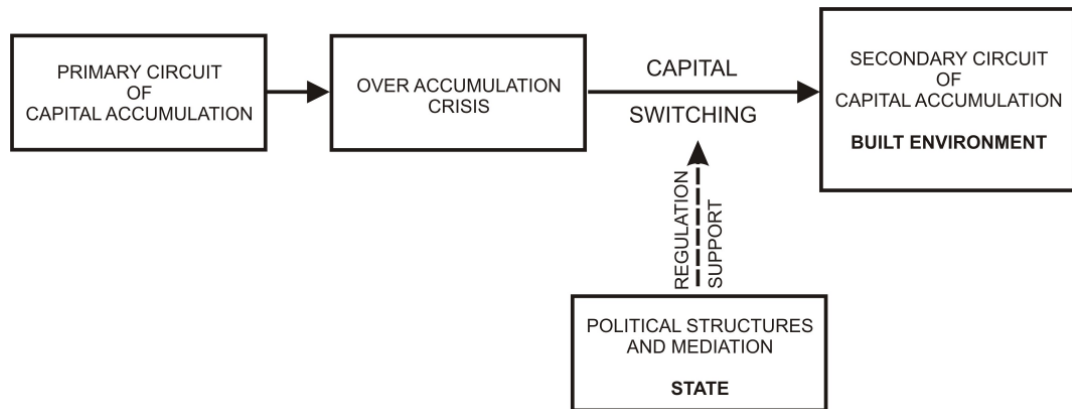
MP stressed liberalism and liberal policies as the primary component of their discourse. They claimed that under their ruling, the country in general and the citizens would be better off. They intended to base their political discourse and activity on urban areas. For instance, empowerment of local governments has

been argued as a strategy designed in accordance with this perspective. Moreover legal and institutional arrangements regarding the creation of urban rents (such as amnesties, housing finance and production, etc.) and their distribution of them among various factions of the society were accepted as parts of this discourse creation.

Similar to MP, JDP based their political discourse on wealth increase as well. Besides, democratization has been another essential component of their discourse. They often asserted that under their ruling, wealth of citizens, national income and foreign capital inflows increased enormously. Very similar to MP, JDP also intended to benefit from various arrangements concerning the creation and distribution of urban rents. Amnesties provided to almost all sorts of shanty settlements, housing production by means of HDA, urban regeneration projects were argued not only parts of JDP's discourse creation but also financial means of their political activities.

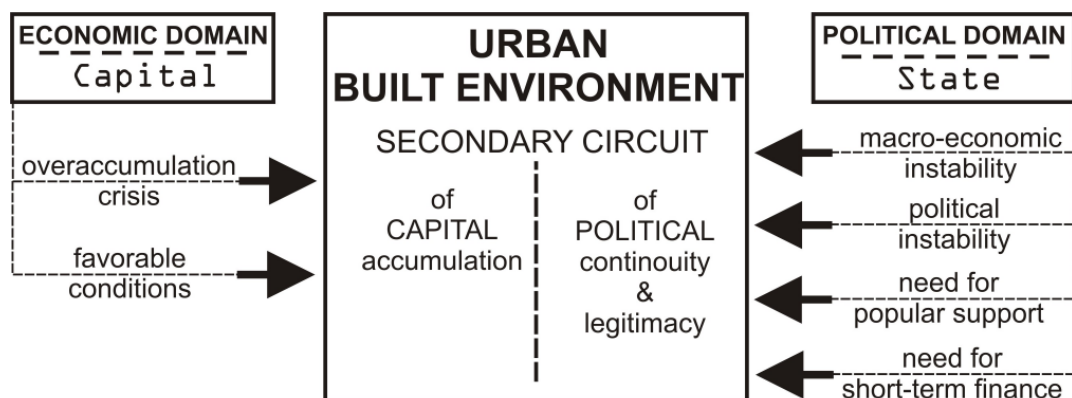
Arguments and discussions made recently revealed how crucial the political processes and how important the roles of the state are for capital switching. Turkish case indicated that political processes are as determining as the economic processes in initiating and organizing capital flows into the secondary circuit. Capital flows in Turkish case seemed to have occurred during periods when the state provides necessary conditions and crucial support. In other words it was observed that a necessary condition of flow of investments into the built environment in Turkey has been the state willing to enable and facilitate these flows. Moreover in Turkish case, political actors (governments and ruling parties) seemed eager to benefit from capital switching no less than the economic actors.

However theoretical arguments conceptualize the involvement of political actors different than the results derived from Turkish case. Figure 7.2 represents and summarizes the conceptualization of capital switching approach. According to the mainstream arguments of the approach circulation and concentration of capital in and through urban built environment are basically explained with reference to a single factor. That is, capital accumulation and its related crises. In this context, political processes and actors are given secondary and passive roles such as helping individual capitalists to carry out a balanced flow via financial means and guarantees for long-term projects.



**Figure 7.2: Theory in General**

Nevertheless Turkish experience enabled us to state that it is not sufficient to explain the process of capital switching with reference to merely economic processes such as overaccumulation crises. In contrast, the process of capital switching might be explained or conceptualized as a common and a collective action of the state and capital, bearing in mind that both of them expect to benefit from this action. The below figure represents and summarizes the alternative way of conceptualization of capital switching.



**Figure 7.3: Theoretical Discussions Reconsidered**

As illustrated on the above figure, political actors especially the governments have essential reasons to initiate capital flows into the production of built environment no less than the economic actors. In this regard, urban built environment could be conceptualized not only as the secondary circuit of capital accumulation but also as the secondary circuit of political continuity and legitimacy.

### **7.3. RECOMMENDATIONS FOR FURTHER STUDIES**

In this thesis we attempted to examine urban development with reference to capital accumulation processes in the context of Turkey. Following the macro analysis we investigated the relationships between state and capital within the production of urban space. Our research revealed the close coordination between state intervention and capital flows at the national level. We concluded that together with economic actors, political actors play crucial and determining roles in capital flows into the production of built environment. Moreover we noted that the state as well as capital intends to benefit from capital switching. In the light of these findings, a group of studies and research can be made to investigate the reasons and results of state intervention and involvement into the secondary circuit. Major questions behind these studies should be as follows:

- Why does the state intervene and involve into the production of urban built environment?
- How and in what ways does the state benefit from capital flows into the built environment?

Moreover it would be insufficient to treat the concept of state as a powerful central one in these studies. The differences between the local and central governments should be considered. In this regard some studies might examine the relationships between local and central governments established around the issues concerning the production of built environment.

Besides, another group of studies and research can be directed towards the investigation of issues that we have argued as new channels of capital circulation and new fields of investments. As we discussed before, recent legislative actions provided the legal basis for realization of some speculative mega-projects and implementations. Urban regeneration projects appeared to be the foremost ones.

Several studies and research may deal with these projects. However attention should be directly on the capital invested in these projects. Major questions behind these studies should be as follows:

- What are the sources of capital invested in these projects?
- How and in what processes have the capital invested in these projects gathered?

#### **7.4. POLICY IMPLICATIONS**

One of the most common and essential consequences of capital switches into the production of built environment is the problem of irrationality. Although the theory emphasizes that capital switches should be organized and managed in a balanced way there are various empirical studies indicating examples of excessive and irrational capital switches. The problem of irrationality arises either in the form of overinvestment in the built environment or in the form of excessive transfer of capital and finance to real estate sector. According to us, the irrationality problem should be accepted as a process which satisfies the short term interests of economic and political actors at the expense of the long term interests of the society. The research that we have presented in the sixth chapter exemplifies this situation in the context of Turkey. This research indicated that for the short term interests of economic and political actors various essential spatial assets were subjected to development and profit-oriented construction activities during the last 5 years in Turkey. Special conservation zones such as forests, coastal zones, protection areas, natural heritage areas, etc. and public properties and vacant public lands located in central locations were all attempted to be subjected to development projects, mega-projects and built investments. In this context, essential and influential counter-strategies and policies should be developed as parts of the planning and urban development system in order to preserve the long term interests of the society.

Here we will mention an example of such a strategy or policy to be implemented in Turkey. The recent legislative actions, which we defined as examples of deregulation and liberalization, indicated that urban development plans, laws, by-laws, regulations, etc. are not effective and sufficient enough to protect and

conserve the essential spatial and natural assets. For this reason, a new settlement policy at the national level should be designed and implemented. This policy can be designed in the form of a nation-level land use plan. This national settlement policy or land use plan should be developed and treated as a “spatial constitution”. In this policy or land use plan, the areas, places or locations, which are subjected to absolute protection, should clearly be designated. This policy or land use plan should be approved by TGNA. The procedure for amending this policy or plan should be the same with the procedure for amending the constitution. The existence of such a policy or a plan would prevent the intervention of governing parties and ministries to land use planning by simply enacting or amending existing laws, by-laws, etc.

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## APPENDIX

**Table A.1: List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
1	<a href="#">4737</a>	09/01/2002	LAW ON INDUSTRIAL ZONES	Enacted. Official Gazette 19.01.2002/24645	
2	<a href="#">4767</a>	27/06/2002	LAW ON AMENDMENT TO HOUSING DEVELOPMENT ADMINISTRATION LAW (NO. 2985)	Enacted. Official Gazette 03.07.2002/24804	
3	<a href="#">4833</a>	29/03/2003	BUDGET LAW FOR YEAR 2003	Enacted. Official Gazette 31.03.2003/ 25065 (Repeated Version)	Republican People's Party (RPP) opened an action for nullity at the constitutional court. Final decision has been given. Stay of Execution Decision: Official Gazette 22.07.2003/25176 Final Decision: Official Gazette 08.12.2004/25664
4	<a href="#">4841</a>	04/04/2003	LAW ON AMENDMENT TO SOME ARTICLES OF THE CONSTITUTION OF THE REPUBLIC OF TURKEY	Sent Back by the President.	
5	<a href="#">4848</a>	16/04/2003	LAW ON THE DUTIES AND ORGANIZATION OF THE MINISTRY OF CULTURE AND TOURISM	Enacted. Official Gazette 29.04.2003/25093	RPP opened an action for nullity at the constitutional court against the entire law. Final decision has been given. Final Decision: Official Gazette 14.04.2005/25785
6	<a href="#">4856</a>	01/05/2003	LAW ON THE DUTIES AND ORGANIZATION OF THE MINISTRY OF ENVIRONMENT AND FORESTRY	Enacted. Official Gazette 08.05.2003/25102	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
7	<a href="#">4864</a>	29/05/2003	LAW ON AMENDMENT TO SOME LAWS	Enacted. Official Gazette 06.06.2003/25130	
8	<a href="#">4903</a>	19/06/2003	LAW ON AMENDMENT TO SEVERAL LAWS	Sent Back by the President.	
9	<a href="#">4916</a>	03/07/2003	LAW ON AMENDMENT TO SEVERAL LAWS AND TO THE DECREE ON THE DUTIES AND ORGANIZATION OF MINISTRY OF FINANCE	Enacted. Official Gazette 19.07.2003/25173	RPP opened an action for nullity at the constitutional court. Final decision has been given. Final Decision: Official Gazette 26.04.2005/25797

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
10	<a href="#">4928</a>	15/07/2003	LAW ON AMENDMENT TO SEVERAL LAWS	Enacted. Official Gazette 19.07.2003/25173	
11	<a href="#">4957</a>	24/07/2003	LAW ON AMENDMENT TO ACT ON ENCOURAGEMENT OF TOURISM (NO. 2634)	Enacted. Official Gazette 01.08.2003/25186	Council of State opened an action for nullity at the constitutional court. Final decision has not been given yet.
12	<a href="#">4960</a>	29/07/2003	LAW ON AMENDMENT TO SOME ARTICLES OF THE CONSTITUTION OF THE REPUBLIC OF TURKEY	Sent Back by the President.	
13	<a href="#">4964</a>	30/07/2003	LAW ON AMENDMENT TO SOME LAWS AND LAW ON AMENDMENTS TO PUBLIC PROCUREMENT LAW (NO. 4734) AND TO LAW ON PUBLIC PROCUREMENT CONTRACTS (No. 4735)	Enacted. Official Gazette 15.08.2003/25200	
14	<a href="#">4965</a>	31/07/2003	LAW ON AMENDMENT TO FOREST LAW (NO. 6831)	Sent Back by the President.	
15	<a href="#">4966</a>	31/07/2003	LAW ON AMENDMENT TO SOME LAWS AND TO THE DECREE ON THE DUTIES AND ORGANIZATION OF MINISTRY OF PUBLIC WORKS AND SETTLEMENT	Enacted. Official Gazette 07.08.2003/25192	
16	<a href="#">4967</a>	31/07/2003	LAW ON AMENDMENT TO CODE OF NATIONAL EDUCATION (NO. 1739 )	Sent Back by the President.	
17	<a href="#">4969</a>	31/07/2003	LAW ON AMENDMENT TO SOME LAWS AND DECREES	Enacted. Official Gazette 12.08.2003/25197	
18	<a href="#">4971</a>	01/08/2003	LAW ON AMENDMENT TO SOME LAWS AND TO THE DECREE ON THE FOUNDATION AND DUTIES OF TURKISH NATIONAL LOTTERY ADMINISTRATION	Enacted. Official Gazette 15.08.2003/25200	
19	By-Law		By-Law Regarding the Preparation and Approval of Development Plans within Culture and Tourism Conservation and Development Regions and Tourism Centers	Issued and Published at 03.11.2003. Official Gazette No: 25278.	Chamber of City Planners opened an action for nullity at Council of State against this entire by-law. Final decision has been given. According to this final decision of the court only a word in a particular article was cancelled.
20	<a href="#">4999</a>	05/11/2003	LAW ON AMENDMENT TO FOREST LAW (NO. 6831)	Enacted. Official Gazette 18.11.2003/25293	Both the President and RPP opened an action for nullity at the constitutional court. Final decision has been given. Stay of Execution Decision: Official Gazette 20.03.2004/25408 Final Decision: Official Gazette 18.05.2005/25819

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
21	<a href="#">5003</a>	19/11/2003	LAW ON THE PROCEDURES AND PRINCIPLES CONCERNING THE CONSTRUCTION OF HIGHWAYS BY GENERAL DIRECTORATE OF HIGHWAYS	Enacted. Official Gazette 22.11.2003/25297	
22	<a href="#">5005</a>	03/12/2003	LAW ON AMENDMENT TO CODE OF NATIONAL EDUCATION (NO. 1739 )	Enacted. Official Gazette 09.12.2003/25311	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
23	<a href="#">5006</a>	03/12/2003	LAW ON AMENDMENTS TO URBAN DEVELOPMENT LAW (NO. 3194) AND TO LAW ON THE PROCEDURE CONCERNING BUILDINGS CONTRARY TO URBAN DEVELOPMENT AND SQUATTER LEGISLATION (NO. 2981)	Enacted. Official Gazette 17.12.2003/25319	
24	<a href="#">5018</a>	10/12/2003	LAW ON ADMINISTRATION AND CONTROL OF PUBLIC FINANCIAL SYSTEM	Enacted. Official Gazette 24.12.2003/25326	
25	<a href="#">5019</a>	11/12/2003	LAW ON AMENDMENT TO THE LAW ON CHANGE AND APPROVAL OF THE DECREE CONCERNING THE ADMINISTRATION OF GREATER MUNICIPALITIES (NO. 3030)	Sent Back by the President.	
26	By-Law		Environmental Impact Assessment By-Law	Issued and Published at 16.12.2003. Official Gazette No. 25318.	
27	<a href="#">5025</a>	21/12/2003	LAW ON ABOLISHMENT OF SOME MUNICIPAL AUTHORITIES	Sent Back by the President.	
28	<a href="#">5026</a>	21/12/2003	LAW ON INTEGRATION OF SOME MUNICIPALITIES AND VILLAGES TO THE MUNICIPALITY OF DENİZLİ	Sent Back by the President.	
29	<a href="#">5027</a>	24/12/2003	BUDGET LAW FOR YEAR 2004	Enacted. Official Gazette 28.12.2003/25330 (Repeated Version)	Council of State opened an action for nullity at the constitutional court. Final decision has been given. Final Decision: Official Gazette 07.02.2006/26073
30	<a href="#">5084</a>	28/01/2004	LAW ON AMENDMENT TO SOME LAWS REGARDING THE PROMOTION AND ENCOURAGEMENT OF INVESTMENTS AND EMPLOYMENT	Enacted. Official Gazette 06.02.2004/25365	
31	<a href="#">5104</a>	04/03/2004	LAW ON AN URBAN REGENERATION PROJECT WITHIN NORTHERN PERIPHERY OF ANKARA	Enacted. Official Gazette 12.03.2004/25400	

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
32	By-Law		By-Law on Amendment to the By-Law Ensuring the Application of Coastal Act	Issued and Published at 30.03.2004. Official Gazette No: 25418.	Both Chamber of City Planners and Chamber of Survey and Cadastre Engineers opened an action for nullity at Council of State. Final decision has been given. Council of State has decided to cancel the entire by-law on the basis of a disagreement with Coastal Act.
33	<a href="#">5162</a>	05/05/2004	LAW ON AMENDMENT TO HOUSING DEVELOPMENT ADMINISTRATION LAW (NO. 2985)	Enacted. Official Gazette 12.05.2004/25460	RPP opened an action for nullity at the constitutional court. Final Decision has been given. Final Decision: Official Gazette 26.10.2005/25978
34	<a href="#">5177</a>	26/05/2004	LAW ON AMENDMENT TO MINING LAW (NO. 3213) AND TO SOME LAWS	Enacted. Official Gazette 05.06.2004/25483	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
35	<a href="#">5178</a>	27/05/2004	LAW ON AMENDMENT TO MEADOWS ACT (NO. 4342) AND TO SOME LAWS	Enacted. Official Gazette 08.06.2004/25486	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
36	<a href="#">5192</a>	17/06/2004	LAW ON AMENDMENT TO FOREST LAW (NO. 6831)	Enacted. Official Gazette 03.07.2004/25511	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
37	<a href="#">5195</a>	22/06/2004	LAW ON AMENDMENT TO LAW ON INDUSTRIAL ZONES (NO. 4737)	Enacted. Official Gazette 01.07.2004/25509	
38	<a href="#">5197</a>	24/06/2004	LAW ON PROVINCIAL LOCAL ADMINISTRATION	Sent Back by the President.	
39	<a href="#">5205</a>	30/06/2004	LAW ON AMENDMENT TO BUILDING INSPECTION LAW (NO. 4708)	Enacted. Official Gazette 06.07.2004/25514	
40	<a href="#">5215</a>	09/07/2004	MUNICIPALITY LAW	Sent Back by the President.	
41	<a href="#">5216</a>	10/07/2004	GREATER MUNICIPALITY LAW	Enacted. Official Gazette 23.07.2004/25531	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
42	<a href="#">5220</a>	14/07/2004	LAW ON AMENDMENT TO CODE OF HEALTH SERVICES (NO. 3359)	Enacted. Official Gazette 21.07.2004/25529	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
43	<a href="#">5226</a>	14/07/2004	LAW ON AMENDMENT TO THE LAW ON CONSERVATION OF CULTURAL AND NATURAL HERITAGES (NO. 2863) AND TO SEVERAL LAWS	Enacted. Official Gazette 27.07.2004/25535	An action for nullity at the constitutional court was opened by a local court. Final decision has not been given yet.
44	<a href="#">5227</a>	15/07/2004	LAW ON THE BASIC PRINCIPLES AND RESTRUCTURING OF PUBLIC ADMINISTRATION SYSTEM	Sent Back by the President.	
45	<a href="#">5228</a>	16/07/2004	LAW ON AMENDMENT TO SOME LAWS AND TO THE DECREE NO. 178	Enacted. Official Gazette 31.07.2004/25539	
46	<a href="#">5229</a>	16/07/2004	LAW ON AMENDMENT TO SOME LAWS AND DECREES	Sent Back by the President.	
47	<a href="#">5234</a>	17/09/2004	LAW ON AMENDMENT TO SOME LAWS AND DECREES	Enacted. Official Gazette 21.09.2004/25590	
48	<a href="#">5237</a>	26/09/2004	TURKISH CRIMINAL CODE	Enacted. Official Gazette 12.10.2004/25611	
49	<a href="#">5254</a>	04/11/2004	LAW ON AMENDMENT TO THE DECREE ON THE FOUNDATION AND DUTIES OF SOUTHEASTERN ANATOLIA PROJECT REGIONAL DEVELOPMENT ADMINISTRATION	Enacted. Official Gazette 11.11.2004/25640	
50	<a href="#">5272</a>	07/12/2004	MUNICIPALITY LAW	Enacted. Official Gazette 24.12.2004/25680	Both the President and RPP opened an action for nullity at the constitutional court. Final decision has been given. Final Decision: Official Gazette 13.04.2005/25785 According to this decision, this law was cancelled on the basis of disagreement with the constitution.
51	<a href="#">5273</a>	08/12/2004	LAW ON AMENDMENT TO LAND OFFICE LAW (NO. 1164) AND TO HOUSING DEVELOPMENT ADMINISTRATION LAW (NO. 2985) AND ON THE ABOLISHMENT OF GENERAL DIRECTORATE OF LAND OFFICE	Enacted. Official Gazette 15.12.2004/25671	

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
52	By-Law		By-law On Industrial Zones	Issued and Published at 16.12.2004. Official Gazette No: 25672.	
53	<a href="#">5281</a>	30/12/2004	LAW ON AMENDMENT TO SOME LAWS AND ON THE HARMONIZATION OF TAX LAWS WITH NEW TURKISH LIRA	Enacted. Official Gazette 31.12.2004/25687 (Repeated Version)	
54	<a href="#">5286</a>	13/01/2005	LAW ON AMENDMENT TO SOME LAWS AND ON THE ABOLISHMENT OF GENERAL DIRECTORATE OF RURAL SERVICES	Enacted. Official Gazette 28.01.2005/25710	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
55	<a href="#">5302</a>	22/02/2005	LAW ON PROVINCIAL LOCAL ADMINISTRATION	Enacted. Official Gazette 04.03.2005/25745	Both the President and RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
56	<a href="#">5319</a>	23/03/2005	LAW ON AMENDMENT TO SOME LAWS AND DECREES	Sent Back by the President.	
57	By-Law		By-Law on the Conservation and Utilization of Agricultural Lands	Issued and Published at 25.03.2005. Official Gazette No: 25766.	
58	<a href="#">5327</a>	30/03/2005	LAW ON AMENDMENT TO SOME LAWS AND ON THE EARTHQUAKE DISASTERS OCCURRED IN DENİZLİ-BULDAN REGION, IN HAKKARİ, IN BİNGÖL-KARLIOVA REGION AND IN ERZURUM-ÇAT	Enacted. Official Gazette 06.04.2005/25778	
59	<a href="#">5334</a>	20/04/2005	LAW ON AMENDMENT TO MEADOWS ACT (NO. 4342)	Enacted. Official Gazette 03.05.2005/25804	
60	<a href="#">5335</a>	21/04/2005	LAW ON AMENDMENT TO SOME LAWS AND DECREES	Enacted. Official Gazette 27.04.2005/25798	
61	<a href="#">5350</a>	12/05/2005	LAW ON AMENDMENT TO THE AMENDMENT LAW ON SOME LAWS REGARDING THE PROMOTION AND ENCOURAGEMENT OF INVESTMENTS AND EMPLOYMENT (NO. 5084)	Enacted. Official Gazette 18.05.2005/25819	
62	<a href="#">5357</a>	27/05/2005	LAW ON AMENDMENT TO TURKISH CRIMINAL CODE (NO. 5237)	Sent Back by the President.	
63	<a href="#">5366</a>	16/06/2005	LAW ON CONSERVATION BY RENEWING AND UTILIZATION BY REHABILITATION OF DECAYED HISTORICAL AND CULTURAL HERITAGE	Enacted. Official Gazette 05.07.2005/25866	
64	By-Law		By-Law on the Permission of Mining Activities	Issued and Published at 21.06.2005. Official Gazette No: 25852.	Although an action for nullity against this by-law was opened this by-law was amended during the judicial process.



**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
65	<a href="#">5377</a>	29/06/2005	LAW ON AMENDMENT TO TURKISH CRIMINAL CODE (NO. 5237)	Enacted. Official Gazette 08.07.2005/25869	
66	<a href="#">5390</a>	02/07/2005	LAW ON AMENDMENT TO GREATER MUNICIPALITY LAW (NO. 5216)	Enacted. Official Gazette 13.07.2005/25874	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
67	<a href="#">5393</a>	03/07/2005	MUNICIPALITY LAW	Enacted. Official Gazette 13.07.2005/25874	Both the President and RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
68	<a href="#">5398</a>	03/07/2005	LAW ON AMENDMENT TO THE AMENDMENT LAW CONCERNING THE REGULATION OF PRIVATIZATION IMPLEMENTATIONS AND SOME LAWS AND DECREES AND ON AMENDMENT TO SOME LAWS	Enacted. Official Gazette 21.07.2005/25882	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
69	<a href="#">5403</a>	03/07/2005	LAW ON SOIL CONSERVATION AND LAND USE	Enacted. Official Gazette 19.07.2005/25880	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
70	By-Law		By-Law on Amendment to the By-Law Concerning the Procedure of Plan Preparation	Issued and Published at 08.07.2005. Official Gazette No: 25869.	Chamber of City Planners opened an action for nullity against this law at Council of State.
71	By-Law		By-Law Ensuring the Application of Law On Conservation By Renewing And Utilization By Rehabilitation Of Decayed Historical And Cultural Heritage	Issued and Published at 24.12.2005. Official Gazette No: 26023.	Chamber of City Planners opened an action for nullity against this law at Council of State.
72	By-Law		By-Law on the Eligibility of Contractors Undertaking the Preparation of Development Plans	Issued and Published at 07.01.2006. Official Gazette No: 26046.	Chamber of Architects opened an action for nullity against this law at Council of State.
73	<a href="#">5449</a>	25/01/2006	LAW ON FOUNDATION, COORDINATION AND DUTIES OF DEVELOPMENT AGENCIES	Enacted. Official Gazette 08.02.2006/26074	Both Council of State and RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
74	<a href="#">5481</a>	05/04/2006	LAW ON AMENDMENT TO THE LAW ON AN URBAN REGENERATION PROJECT WITHIN NORTHERN PERIPHERY OF ANKARA (NO. 5104)	Enacted. Official Gazette 08.04.2006/26133	

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
75	<a href="#">5491</a>	26/04/2006	LAW ON AMENDMENT TO THE ENVIRONMENT CODE (NO. 2872)	Enacted. Official Gazette 13.05.2006/26167	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
76	<a href="#">5494</a>	27/04/2006	LAW ON AMENDMENT TO THE LAW ON THE DUTIES AND ORGANIZATION OF MINISTRY OF TRANSPORT (NO. 3348)	Enacted. Official Gazette 02.05.2006/26156	
77	Circular		CIRCULAR OF MINISTRY OF FINANCE REGARDING THE SALE OF PUBLIC LANDS	Sent at 03.05.2006.	
78	<a href="#">5524</a>	21/06/2006	LAW ON AMENDMENT TO THE LAW ON THE FOUNDATION OF THE DIRECTORATE OF ATATÜRK'S STATE FARM (NO. 5659)	Enacted. Official Gazette 08.07.2006/26222	
79	<a href="#">5538</a>	01/07/2006	LAW ON AMENDMENT TO SOME LAWS AND DECREES AND ON INSERTION OF SOME OF THE PROVISIONS OF BUDGET LAWS TO THE RELATED LAWS AND DECREES	Enacted. Official Gazette 12.07.2006/26226	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
80	<a href="#">5557</a>	23/11/2006	LAW ON AMENDMENT TO THE LAW ON SOIL CONSERVATION AND LAND USE (NO. 5403)	Sent Back by the President.	
81	<a href="#">5578</a>	31/01/2007	LAW ON AMENDMENT TO THE LAW ON SOIL CONSERVATION AND LAND USE (NO. 5403)	Enacted. Official Gazette 09.02.2007/26429	Both the President and RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
82	<a href="#">5582</a>	21/02/2007	LAW ON AMENDMENT TO SEVERAL LAWS CONCERNING THE MORTGAGE SYSTEM	Enacted. Official Gazette 06.03.2007/26454	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
83	<a href="#">5594</a>	06/03/2007	LAW ON AMENDMENT TO GREATER MUNICIPALITY LAW (NO. 5216), MUNICIPALITY LAW (NO. 5393), LAW ON PROVINCIAL LOCAL ADMINISTRATION (NO. 5302) AND LAW ON LOCAL AUTHORITY UNIONS (NO. 5355)	Enacted. Official Gazette 10.03.2007/26458	RPP opened an action for nullity at the constitutional court. Final decision has not been given yet.
84	<a href="#">5609</a>	22/03/2007	LAW ON AMENDMENT TO THE SQUATTER ACT (NO. 775)	Enacted. Official Gazette 28.03.2007/26476	
85	<a href="#">5625</a>	18/04/2007	LAW ON AMENDMENT TO SOME LAWS	Enacted. Official Gazette 26.04.2007/26504	
86	By-Law		By-Law on Amendment to the By-Law on the Permission of Mining Activities	Issued and Published at 21.04.2007. Official Gazette No: 26500.	

**Table A.1 (continued): List of Laws and Regulations Examined**

	LAW NO	DATE OF APPROVAL / DATE OF ISSUE	NAME OF LAW OR BY-LAW	ENACTMENT STATUS	JUDICIARY STATUS
87	<a href="#">5670</a>	25/05/2007	LAW ON AMENDMENT TO THE DECREE ON THE FOUNDATION AND DUTIES OF SOUTHEASTERN ANATOLIA PROJECT REGIONAL DEVELOPMENT ADMINISTRATION	Enacted. Official Gazette 01.06.2007/26539	
88	<a href="#">5675</a>	30/05/2007	LAW ON AMENDMENTS TO GREATER MUNICIPALITY LAW (NO. 5216), TO LAW ON PROVINCIAL LOCAL ADMINISTRATION (NO. 5302) AND TO MUNICIPALITY LAW (NO. 5393)	Enacted. Official Gazette 07.06.2007/26545	
89	<a href="#">5685</a>	03/06/2007	LAW ON AMENDMENT TO MEADOWS ACT (NO. 4342)	Enacted. Official Gazette 20.06.2007/26558	

## CURRICULUM VITAE

### PERSONAL INFORMATION

Surname, Name: Balaban, Osman  
Nationality: Turkish (TC)  
Date and Place of Birth: 24 October 1974, Ankara  
Marital Status: Married  
email: bosman@isbank.net.tr

### EDUCATION

Degree	Institution	Year of Graduation
MS	METU Urban Policy Planning and Local Governments	2000
BS	METU City and Regional Planning	1996
High School	TED Ankara College	1992

### WORK EXPERIENCE

Year	Place	Enrollment
2002-2006	METU Urban Policy Planning and Local Governments Dept.	Research Assistant
1997-2002	T.C. Prime Ministry Administration For Disabled People	Deputy Expert
1996-1997	T.C. Ministry of Environment	City Planner

### FOREIGN LANGUAGES

Advanced English

### PUBLICATIONS

1. Balaban, O. "Bir Konut Finansman Aracı Olarak Mortgage Sisteminin Türkiye'de Olası Etkileri Üzerine", A. Mengi (der.) *Kent ve Planlama: Geçmişi Korumak Geleceği Tasarlamak, Ruşen Keleş'e Armağan İçinde*, 237-257, İmge Kitabevi Yayınları, Ankara (2007)
2. Balaban, O. "Krizden Kaçış Krize Kaçış: Türkiye'de Kamu Yönetimi Reformu", *Çağdaş Yerel Yönetimler Dergisi*, Cilt 13 Sayı 4, Ankara (2004)
3. Balaban, O. "Sel Afeti ve Planlama", *Yerel Dergi*, Sayı 28 (2002)
4. Balaban, O. "Türkiye'de Organize Sanayi Bölgeleri Politikasına Bakış", *Planlama Dergisi*, 2001/1-2, Ankara (2001)

### HOBBIES

Movies, Music, Cooking, Traveling, Football