

TRANSFERRING URBAN RENT TO THE PUBLIC:  
LAND VALUE TAXATION

by  
BAŐAK ATAN

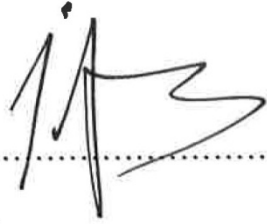
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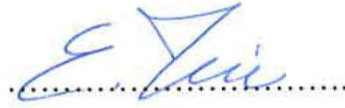
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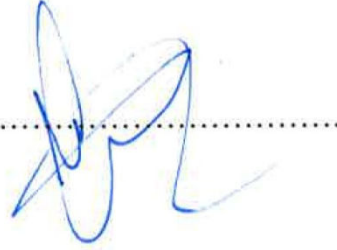


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## **ABSTRACT**

### **TRANSFERRING URBAN RENT TO THE PUBLIC: LAND VALUE TAXATION**

Atan, Başak

M.S., Department of Public Policy, 2014

Supervisor: İzak Atiyas

It is widely known that urban planning practice is becoming a tool of obtaining political and material rent because of lack of ‘urban land policy’ which guide governments’ and private sectors’ planning applications. As an outcome of becoming a capitalist society, current policies are focused on land that is mostly in the hands of individuals and land speculation is perceived as an investment instrument. In addition to the problems with urban land policy, Turkish economic policy is significantly depending on the construction industry. As a result of this reason, governments try to stimulate economic activity and create new employment opportunities through new construction projects. With the realized projects in recent years, there is huge spatial, economic and social intervention to the lives of the local people who suffer from the negative consequences of these processes but who cannot get enough share from rent. Since urban rent is formed over time and is not a product of one's labor, it shouldn't be a product of only certain groups who profit. Urban rent which is formed as a result of urban development should be owned publicly. The basic motivation of the thesis is to discuss a proposal for ‘Land Value Taxation’ as a policy tool in the context of a land policy which is based on transferring urban land to the public. International examples of Land Value Taxation implementations are investigated and benefits of Land Value Taxation are explained through various exercises.

Keywords: Urban Rent, Land Value Taxation, Rent Creation, Rent Distribution

## ÖZ

KENTSEL RANTLARIN KAMUYA AKTARIMI:

TOPRAK RANTI VERGİLENDİRMESİ

Atan, Başak

Yüksek Lisans; Kamu Politikaları, 2014

Tez Yöneticisi: İzak Atiyas

Günümüzde şehir planlama pratiği iktidarların ve özel sektörün planlama uygulamalarını yönlendiren bir kentsel arsa politikasının bulunmaması sebebiyle üzerinden siyasi ve maddi rant elde edilen bir araç haline gelmiştir. Kapitalist bir toplum olmanın getirisi olarak, uygulanan politikalar arsa sahipliğinin çoğunlukla bireylerin elinde olmasına ve arsa spekülasyonunun bir yatırım aracı olarak algılanmasına odaklıdır. Kentsel arsa politikasıyla ilgili problemlere ek olarak, Türkiye ekonomi politikası önemli derecede inşaat sektörüne bağlıdır. Bu sebeple, iktidarlar, yeni inşaat projeleriyle ekonomiyi canlandırarak bu yolla istihdam yaratmaya çalışmaktadırlar. Gerçekleştirilen projeler ile insanların fiziksel, sosyal ve ekonomik hayatlarına müdahale edilmekte, sürecin bütün olumsuzluklarını yaşayan halk ortaya çıkan ranttan yeterince pay alamamaktadır. Unutulmamalıdır ki kentsel rantlar zamanla oluşmaktadır ve tek bir kişinin ürünü değildir. Bu sebeple sadece belli zümrelerin kar ettiği bir ürün de olmamalıdır. Toplum tarafından yaratılan değer, yine toplum tarafından paylaşılmalıdır. Bu tezin temel güdülenmesi, Türkiye için kentsel rantların kamuya aktarımını esas alan bir Arsa Politikası kapsamında, politika aracı olarak ‘Toprak Rantı Vergilendirilmesi’ önerisi geliştirmektir. Bu bağlamda tez kapsamında Türkiye’de mevcut rant dağıtım araçlarına ek olarak, kentsel rantların formel olarak vergilendirilmesi önerilmektedir. Arsa Vergilendirmesi uygulaması uluslararası örneklerde incelemiş olup, çeşitli simülasyonlar ile faydaları anlatılmaya çalışılmıştır.

Anahtar sözcükler: Kentsel Rant, Toprak Rantının Vergilendirmesi, Rantın Yaratılması, Rantın Dağıtılması

To people killed in Gezi Park Protests..  
and to all Gezi Park Protestors who tried to defend their cities...

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# CHAPTER I

## 1. INTRODUCTION

It is widely known that urban planning practice is becoming a tool of obtaining political and material rent because of lack of ‘urban land policy’ which guide governments’ and private sectors’ planning applications. As an outcome of becoming a capitalist society, current policies are focused on land that is mostly in the hands of individuals and land speculation is perceived as an investment instrument. In addition to the problems with urban land policy, Turkish economic policy is significantly depending on the construction industry. As a result of this reason, governments try to stimulate economic activity and create new employment opportunities through new construction projects. Usually urban transformation projects, zoning regulations, major investment projects in order to achieve political gains such as ‘crazy’<sup>1</sup> projects are the ways of stimulating the economy and taking advantage of accompanying financial surplus. With the realized projects in recent years, there is huge spatial , economic and social intervention to the lives of the local people who suffer from the negative consequences of these processes but who cannot get enough share from rent. Actors such as local governments, construction companies and entrepreneurs ignore the issue of fair sharing of the rent during planning interventions. Since urban rent is formed over time and is not a product of one's labor, it should not be a product of only certain groups who profit. Value created by the community should be shared by the community again. Urban rent which is formed as a result of urban development should be owned publicly. The thesis will

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<sup>1</sup> ‘Crazy’ project refers to waterway project which propose to connect Marmara and Black Sea with an artifical water gap. This project was the one of the promises of the 2011 elections. The reason for describing as 'crazy' is that the project is a major intervention to the nature and it is difficult to estimate possible externalities.

focus on the ‘transferring urban rent to the public’ which can play a role to decrease income inequality and stop to uncontrolled structuring cities. The way to realize the transfer could be ‘land value taxation’ as an urban land and economy policy tool in addition to current rent distribution instruments. In the thesis, I framed my inquiry and research approach to explore the following questions:

How is the urban rent created in Turkey?

How is the urban rent shared or distributed in Turkey?

What role do actors have in creating and sharing urban rent?

How to transfer urban rent to the public?

How to create policies for Turkey in order to provide benefit of all actors equally from urban rent and contribute social justice?

I am going to find answers to these questions with explaining various types of rents discussed in the literature, explaining theoretical approaches on the production of urban land, examining how rents are generated and distributed in the Turkish case, the legal framework and in practice related to neoliberal policies and various approaches and methods proposed in the literature as well as various approaches used in different jurisdictions around the world to transfer this rent to the public such as Land Value Taxation.

### **1.1. Aim, Argument and the Problematic of the Thesis**

Keleş has stated: What is meant of saying features of capitalist societies are also features of capitalist cities? Becoming land ownership in the hands of individuals rather than public leads high-income groups play a chief role in the planning of cities. Land and housing are made widely subject to trade. So much so, in this system, increase in land value as a result of speculation can be viewed favorably (Keleş; 2013:86). Today in Turkey, similar process has occurred which has been described by Keleş. In Turkey, which is trying to be integrated to the global economy, urban land is being subject to international and national trade. Creating rent with land speculation is viewed as an investment method and perceiving this situation as legitimate has started to create

danger in terms of public welfare and future of cities. Beside land speculation, rent acquisition from urban land with various state interventions is another important problem. Usually governments in Turkey use their power in this way in order to sustain the political power. Even though there are lots of attempts to create rent, there is nothing much to distribute rent to its real owners. For this reason, the aim of the thesis is to propose an appropriate taxation method fitting with political culture of Turkey in order to provide fair sharing of urban rent and avoid land speculation.

My main argument in the study is as follow;

Due to the current functioning of urban land and economy policy in Turkey, urban rent is not allocated fairly and this leads increase in income inequality and uncontrolled construction in cities. A new policy should be formulated to guide actions of government especially in terms of urban rent sharing implementations.

In the thesis, ‘taxation urban land’ as an economic policy and urban land policy tool will be focused on. Importance will be given to rent creation and distribution instruments as a result of being financial resources of local governments and guiding planning implementations. So, in the thesis ‘Land Value Taxation’ proposal of Henry George will also be examined in the context of ‘Georgist Perspectives on City Planning’.

According to Article 23 of the 1982 Constitution<sup>2</sup>, freedom of settlement may be limited by law in order to provide social and economic development, healthy and orderly urban growth. In addition to the Constitution, urban rent taxation issue is discussed in 8th Five Year Development Plan. In article 1931<sup>3</sup>, it is stated that, urban land rent shall be taxed in order to be used in financing construction and infrastructure activities of local governments. The said articles of the Constitution and Development Plan are considered as legal basis for taxation proposal to be developed under the thesis.

The thesis is designed firstly to understand land creation instruments through various urban planning interventions such as urban transformation processes, speculative ‘crazy projects’. How these rents were established and which actors benefit and suffer during these processes will be discussed with related legal regulations. While comparing

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<sup>2</sup> [http://www.tbmm.gov.tr/anayasa/anayasa\\_2011.pdf](http://www.tbmm.gov.tr/anayasa/anayasa_2011.pdf) accessed 11.07.2014

<sup>3</sup> <http://www.kalkinma.gov.tr/Lists/Kalkinma%20Planlar/Attachments/2/plan8.pdf> accessed 19.07.2014

interventions/ land creation instruments, it is planned to reveal which urban planning interventions are most vulnerable for abusing produced value and which rent distribution instrument is most suitable for every rent creation type. Roles of actors, how these actors perform their duties from state, private companies to local people in a large sphere will be discussed. Networks, relations among interest groups also will be discussed.

Before starting to explain transferring urban rent to the public, at first, urban land and private ownership problem are needed to be discussed. These problems can be classified as (Ulutaş; 2005:11);

- \* Problems related with urban planning and development

- \* Problems arising from societal and economical perspective

- \* Political and ethical problems

Tekeli explained that, speculation owing to presence of land ownership affect settlement decision of each person and institution. Therefore, it prevents the growth direction and intensity of cities taking place in the desired and planned way. According to Tekeli, land owners arrest of value created publicly. This affects economic development by two ways: First it causes that accumulation of wealth is in the hands of the class with sociologically very weak investment and entrepreneurial abilities. In this way, scarce real resources cannot be targeted to development goals. Second and probably more importantly, becoming subject of speculation and private gain, urban land tends to be used in a wasteful manner. In addition to these problems, Tekeli stated that the possibility of the formation of speculation puts urban planning in the middle of political pressures (Tekeli; 2009:26-27-28).

These problems are important because they harm ‘public welfare’. Core subject of the thesis ‘Land Value Taxation’ will be discussed as a solution to these problems by intervening in the process of transfer of rents.

There are quite number of studies explaining the transfer of urban rent to the public. One of the most important ideas came from Henry George who was an economist and

land reformer<sup>4</sup>. Edward Lawrence explained George's view as "Henry George, on the other hand, felt that the problem was the private ownership of land. The landowner did not create the land, and he contributed nothing to production, but yet he could force others to pay him for the privilege of working on or living on the land, causing an increase in the disparity in wealth between those with land and those without. He proposed keeping the land in private ownership, but having the government tax 100% of the rental value each year. (Henry George later endorsed taxing just 90% of the rental value each year, leaving the property owner a 10% bonus or commission.) Taxing all or most of the rental value of the land would be justified, he said, because land is a gift of nature (or God), not a creation of man. The enhancement to land value comes from population growth and public improvements such as railroads, canals, highways, and various public works. The owner of the land did not create the external factors that increased the rental value of the site, so why should he benefit from the increase in value brought about by those factors?" (2006:2). Henry George believed that land tax would prevent land speculation and guide land owners to use their land in most efficient way. In addition to this, he focused on revenue of land value taxation and he believed that after land value tax there is no need for other taxes (Lawrence; 2006:2-3). Milton Friedman stated that "In my opinion, the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago"<sup>5</sup>.

In this thesis, we will accept these arguments as the ground work of the study and our research will be formed in the context of these arguments. In the light of these arguments our major research questions can be defined as: how can we transfer urban rent to the public and how can we use Georgist Land Value Taxation in order to reach this aim?

## **1.2. Methodology of the Thesis**

A three-part method will be used in order to attempt to answer the research questions: "how to transfer urban rent to the public" and "how can Georgist Land Value Taxation can be used in order to reach this aim". The first part will look existing

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<sup>4</sup> <http://global.britannica.com/EBchecked/topic/229961/Henry-George> accessed 26.07.2014

<sup>5</sup> <http://www.econlib.org/library/Enc/bios/George.html> accessed 02.07.2014



implementations in Turkey and compare and balance differing instruments for rent creation and distribution. It will look at both proponents and opponents of these instruments and compare arguments as to their effectiveness in promoting transferring urban rent to the public. The second part will include a proposal land value taxation implementation for a selected study area. In the research part of implementation exercise the qualitative research methods are used. Interviews were conducted with the real estate appraisals. Graphs and tables will be constructed to illustrate taxation, rent allocation structures. The third part will use some international examples of land value taxation instrument which support transferring urban rent to the public.

To begin a discussion on how to transfer urban rent to the public we first need to define what we mean by rent and later rent transferring instruments.

## **CHAPTER II**

### **2. THEORETICAL AND CONCEPTUAL FRAMEWORK**

#### **2.1. Introduction**

In this chapter we will inquire how production of urban land, urbanization and urban rent relate each other. First of all, land rent concept, production of urban land, increase in value in urban land are going to be discussed. Then approaches on the transferring urban rent to the public on the axis of land value taxation are going to be introduced. This chapter will present the main theoretical and conceptual approaches of the thesis.

#### **2.2. Land Rent Concept**

Before discussing transferring urban rent to the public, it is vital to understand what land rent is and how it is created. Absolute and differential rent theories are important in explaining ‘occurrence of economic value of land’ and ‘why land value increases so fast’.

According to Ricardo, rent arises from unique characteristic differences among different pieces of land such as productivity and proximity to the consumption center. Because any value cannot be created without labor, value of land is determined by the value of goods produced on it. However the price of a good which is produced on more productive soil equals to price of a good which is produced on less productive soil. Products which are produced in more productive soil provide a surplus value. This

surplus value is the source of rent which is called 'differential rent' in theory (Tekeli; 2009:19).

According to this theory, as population increases and economy improves, the rent will be increased. This is because rational people will first use more productive lands before. Then as a result of increasing demand they will start to use less productive lands. So, market prices of these products and rent of landowners who have productive lands will increase (Tekeli; 2009:20).

Tekeli stated that the 'absolute rent' is the main subject that Marx focuses on. The reason behind the rise of absolute rent is private ownership. This ownership is monopolistic inevitably because the supply of land cannot be increased by human endeavor. If supply of any commodity decreases, then price of that commodity starts to increase. After that, as a result of production becoming more profitable, other entrepreneurs enter the market and competition leads to equilibrium price levels. However, supply of land does not increase so property rights on it acquires the monopolistic feature. This is the source of absolute rent. Landowners have possibility to slow down technical process in agriculture and so they have ability to provide a residual value above average profit in the industry thanks to monopoly on land. In this way, they change income distribution against employees and slow down progress in society. Tekeli stated that, for this reason, even in the capitalist system nationalization of land is necessary and this is rational. In this way, absolute rent will disappear and only differential rents will remain. Then, there will be possibility to allocate the land to the most efficient uses as consistent with capitalist purposes (Tekeli; 2009:20).

### **2.3. Production of Urban Land**

In this part we will focus on how city grows. We will explain the levels of conversion fields into urban land. In addition to growth of city, urban transformation which is another determining factor in production of urban land will be explained.

### **2.3.1. Urbanization, Production of New Urban Land and Precipitating the Floating Value**

As stated in the report of the Chamber of Architects, value in urban land is born as a result of economic and social activities which are organized in the city and also around the city. In countries where agricultural population growth is bigger than job opportunities created in agriculture, there is great pressure to flow from rural areas to cities. The population pressure concentrated around cities inevitably raises shelter, schools, hospitals, parks, roads, water, electricity, sewerage needs and demand. Because all of these require the use of the land, high and growing demand for urban land emerges. New comers cause an increase in the total value of urban land. This value is called floating value because, until the determination of where new arrivals is settled, this value is floating and it is unclear where it crashes. This value collapsing as the increase in land prices in some parts of the city with settling of the newcomers. Urban plans are being as an instrument to precipitate of floating value. As a result of this, urban plans determine which private ownership take the this floating value (Mimarlar Odası Ankara Şubesi XIV.Dönem Yönetim Kurulu; Kent Toprakları Sorunu:57).

### **2.3.2. Increase in Value of Urban Land in Time and Land Speculation**

According to the report of Chamber of Architects, an agricultural land near to the city gains value when the city grows. At first, land which has agricultural land use value gains extra value with this growth. Then, planning of this land will cause a rise in value again. Land could be ready for urban usage after urban infrastructure is prepared. This preparation also allows for an increase in value. Lastly, with starting of the construction activities, land value increases rapidly. As a result of pressure of urban growth, density (permitted by the development plan) will be increased or new land use types will be allowed in urban plans. This leads to a significant increase in value again. So, there is no possibility to lose the value of urban land which is bought. As a result of this, people will hold land which is bought cheaply. They will sell after it gains high value and make land speculation. Land speculation arises from the fact that land is an unmovable resource and private ownership is allowed on these resources. Urban land owner gains rent without any addition to welfare of society, without any risk, without any effort

(Mimarlar Odası Ankara Şubesi XIV.Dönem Yönetim Kurulu; Kent Toprakları Sorunu:57-58).

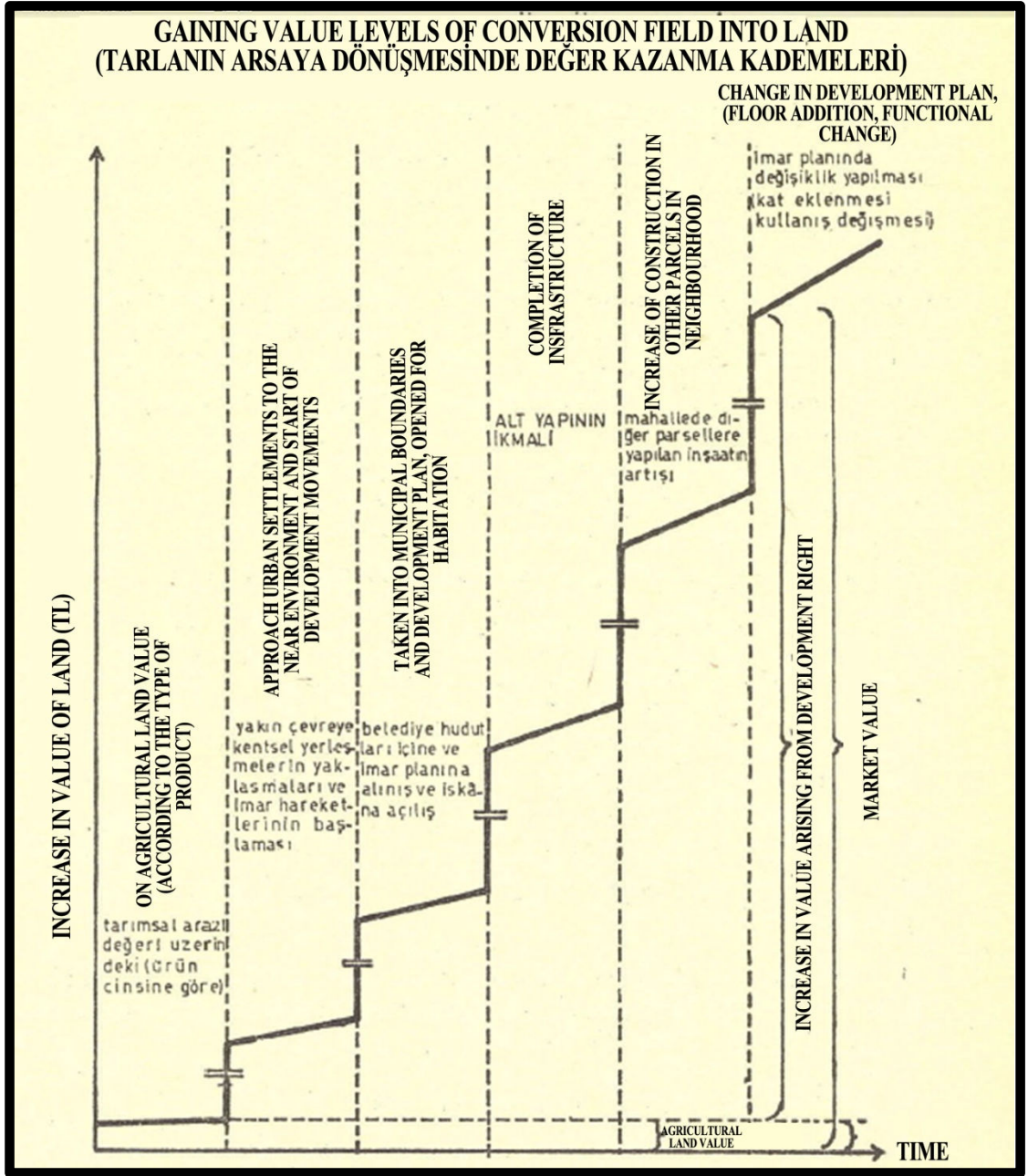


Figure 2.1. Increase in Land Value of an Agricultural Land

Source: translated from, 'Kent Toprakları Sorunu', Mimarlar Odası Ankara Şubesi XIV.Dönem, pp.57

### **2.3.3. A New Urban Land Production Approach: Urban Transformation**

There is a relatively new type of production (in fact reproduction) of urban land which mostly depends on commodification of land. After deindustrialization process in Turkey, big capital groups mostly shifted to the other profitable fields such as construction sector. Related to this issue, parts of the city where slum populations (who were working mostly in industrial sector) live became valuable. According to Sönmez, big capital did not bother about that these people came from rural and occupied urban land because this situation was solving housing issue of workers and their wages would be lower. Thus, there was integration between industrialization and squatters in that period. Governments tolerated this situation with fear of vote. On the other hand, this process was reversed after 80. Big capital who took the most profitable privatization tenders came to the point to integrate İstanbul to the world economy as a global city. İstanbul began to be transformed to a city which specialized in services, finance, tourism and culture -media industry. At this point, places in city center which were occupied by old industrial workers gained value quickly. Under the name of urban transformation, evacuation of these residents came up to the agenda. With gentrification processes, there was planned to build luxury houses and sites. There opened a way for commodification urban land and obtain large accumulations and today we continue on this path (Sönmez<sup>6</sup>,2010). Consequently, today, urban transformation can be interpreted as a new way to reproduct urban land and there are various instruments rather than rehabilitation of slum areas. One of these instruments is ‘transformation of areas which have disaster risk into safe living environments’ and the other one is to ‘present a speculative project’. Today, reproduction of urban land can be experienced in every part of city with these new instruments and legal arrangements as i will explain in following chapters.

### **2.4. Theoretical Approaches on the Transferring Urban Rent to the Public**

In this part of the study various views on Land Value Taxation will be presented which will form the basis for our following discussions.

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<sup>6</sup> <http://mustafasonmez.net/?p=218> accessed 09.08.2014

### 2.4.1. Henry George

There is an important theorem that advocates urban rent as a tax base which is called the Henry George Theorem. According to Henry George, who is a 19<sup>th</sup> century political economist, “the value of land in a city is a function of the public investment in that city's infrastructure. Under certain ideal conditions, aggregate spending by government will be equal to aggregate land rent; thus, 100% of a city's revenue needs could be provided by a levy on its land rent”<sup>7</sup>.

Shoup specifies that (by giving reference to the book of Henry George which is called ‘Progress and Poverty’<sup>8</sup>) taxes on land are naturally ordained sources of state income. There are two reasons of this situation. First, the increase in land value is a product of all community instead of individuals. George’s second reason is that taxes on land do not have any negative effect in terms of investment. It does not discourage construction and maintenance of buildings such as taxes on buildings. George claims that land tax encourage economic growth and diminish amount of other taxes by replacing other taxes in the economy. Moreover importantly, he supports that “this shift in taxation would produce progress without poverty” (Shoup; 2004:760).

There are some studies which enlighten Henry George Rule from point of view of local governments with explaining how this rule is important for economy of a city and how individuals benefit from public investments. According to ‘A Rule called George: Fixing the Property Tax System’ study of Robinson, Henry George Rule is important in terms of functioning local governments because local governments want to raise property values. As a result of this value depends on what community does, local governments perform their tasks in order to contribute to this value by providing public goods. At this point Robinson emphasized that the value of land contains both ‘price’ and ‘value of future taxes’. He counted taxes as a part of land value because he thought that “the cost of using a piece of land has two parts-the price of land PLUS tax bill”. Therefore, he advocated that benefits at least should be equal to the ‘price PLUS taxes’ in order to make an investment. For him, this cost benefit analysis become a simple rule for the city council and they could approve any project “if it increases the value of land and future taxes by more than it costs”. However, he stated that this is difficult to

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<sup>7</sup> <http://www.henrygeorge.org/rem42.htm> accessed 02.07.2011

<sup>8</sup>First Pub. Date 1879 <http://www.econlib.org/library/YPDBooks/George/grgPP.html> accessed 26.07.2014

implement in practice because city councils couldn't afford to realize every project which is supported by this rule. He said that "the nature of property taxes gets in the way. Increases in the market price of the land go to the owners. Property owners collect the benefits that city council pays for"(Robinson<sup>9</sup>,2002).. All these explanations of Robinson, pointed out that land value taxation system was came to the agenda as a solution to problem of benefiting only land owners from increases in land value.

#### **2.4.2. Adam Smith**

Adam Smith is social philosopher and political economist who lived between the years 1723-1790<sup>10</sup>. "A century before Henry George began writing, Adam Smith also endorsed land value taxation in *The Wealth of Nations*<sup>11</sup>" (Shoup;2004:760). He stated the following in his book, "Ground-rents are a still more proper subject of taxation than the rent of houses. A tax upon ground-rents would not raise the rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist, and exacts the greatest rent which can be got for the use of his ground. More or less can be got for it according as the competitors happen to be richer or poorer, or can afford to gratify their fancy for a particular spot of ground at a greater or smaller expense. In every country the greatest number of rich competitors is in the capital, and it is there accordingly that the highest ground-rents are always to be found. As the wealth of those competitors would in no respect be increased by a tax upon ground-rents, they would not probably be disposed to pay more for the use of the ground. Whether the tax was to be advanced by the inhabitant, or by the owner of the ground, would be of little importance. The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground; so that the final payment of the tax would fall altogether upon the owner of the ground-rent<sup>12</sup>". It can be seen that, Smith pointed out benefits of

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<sup>9</sup> [http://www.cooperativeindividualism.org/robinson-david\\_a-rule-called-george-fixing-the-property-tax-system-2002.html](http://www.cooperativeindividualism.org/robinson-david_a-rule-called-george-fixing-the-property-tax-system-2002.html) accessed 09.08.2014

<sup>10</sup> <http://global.britannica.com/EBchecked/topic/549630/Adam-Smith> accessed 29.07.2014

<sup>11</sup> First Pub. Date 1776 <http://www.econlib.org/library/Smith/smWN.html> accessed 29.07.2014

<sup>12</sup> <http://www.dailykos.com/story/2009/07/05/749996/-Why-Land-Value-Taxes-Should-be-Implemented> accessed 15.07.2014



Land Value Taxation such as lowering house prices, burdening taxes on owners, discouraging to invest on land.

When Butler's (who is an economist and director of Adam Smith Institute<sup>13</sup>) condensation of Adam Smith's arguments is examined, it can be seen that they are parallel with Henry George's argument. He has included in his book 'The Condensed Wealth of Nations' following opinions of Smith: "Taxes on the produce of land, such as tithes, are very unfair. They fall harder on those who own and farm less productive land. And they discourage landlords from improving their land, or farmers from investing in better cultivation, when the church or state shares none of the expense but takes part of the profit". Therefore, he advocates dividing house rents into building rent and ground rent. Similar to Henry George, he thinks that taxes on ground rent would not discourage improvement and building (Butler; 2011:71-72).

#### **2.4.3. William Vickrey**

William Vickrey is another important economist who studied on taxation and tax policy. Dye and England reviewed his views as in follows: "The comments of William Vickrey (1999), recipient of the 1996 Nobel Prize in Economics, point to a superior version of property taxation: The property tax is, economically speaking, a combination of one of the worst taxes—the part that is assessed on real estate improvements . . . and one of the best taxes—the tax on land or site value. Vickrey's remark emphasizes that the traditional property tax is actually two distinct taxes bundled into one annual tax bill. One portion is a levy on the assessed value of a parcel of land, and the other is a levy on the assessed value of any structures or other improvements on that parcel. Although the traditional property tax applies the same tax (or millage) rate to both components, this ratio could be changed (Dye and Enland; 2010:6)."

Vickrey also underlined fairness characteristic of Land Value Taxation with saying that: "It (*land value taxation*) guarantees that no one dispossesses fellow citizens by obtaining a disproportionate share of what nature provides for humanity (Wuensch and Kelly and Hamilton; 2000:1)." With this comment he focused on some basic premises

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<sup>13</sup> <http://eamonnbutler.com/> accessed 26.07.2014

of land value taxation which advocates that private ownership should be prevented and land is common creation of all people.

#### **2.4.4. Assessment of Arguments and Criticisms**

According to George, Smith and Vickrey, Land Value Taxation has the potential to solve land speculation problem. It could prevent certain class from appropriating the urban rent. Moreover, they focused on other benefits of Land Value Taxation such that it encourages development and economic growth, decrease house prices and amount of other taxes, transfer the tax burden to the land owner.

Besides George's, Smith's and Vickrey's arguments which are parallel with each other, there are also some criticisms about their opinion and Land Value Taxation. One of the popular criticisms for George focused on his view that private ownership is the only source of poverty and interrupted depressions (Blaug; 2000:279). In addition to this, there are some criticisms about the difficulty of valuation of land. It is widely believed that valuation issue is vulnerable for corruption. People could want to show low of their estate's value in order to pay less tax.

According to Robinson, Henry George has two important problems. One of them is "almost no one knows about the rules". The second problem is that "existing tax laws are set up a different way". For instance "Property taxes are charged on buildings as well as land, property taxes are set to cover services like water or garbage collection that are not part of the property value, property taxes are used to pay for services that are not related to property value" (Robinson<sup>14</sup>, 2002).

Also the Marxists do not agree with Georgist arguments which claim that "existing taxation should be replaced by Land Value Taxation". Latham stated that Marx's views on George are related with his theory of rent. He said that rent (by giving reference to Matthew Edel) "is a deduction from surplus value received by the capitalists. In a capitalist system, the landlord does not receive earnings directly from the purchase of labour power and the sale of his product. He does not thus directly benefit from the

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<sup>14</sup> [http://www.cooperativeindividualism.org/robinson-david\\_a-rule-called-george-fixing-the-property-tax-system-2002.html](http://www.cooperativeindividualism.org/robinson-david_a-rule-called-george-fixing-the-property-tax-system-2002.html) accessed 09.08.2014

creation of new value by labour! But by owning the land necessary for production, the landlord can obtain funds in return for its use (Latham; 2011:94)''.

Moreover Hartwich emphasized several shortcomings of Land Value Taxation in his study 'Taxing Land Value is Another Questionable Tax'. According to Hartwich, landowner is an entrepreneur similar to investors in other markets. Therefore, in natural landowner holds land with taking into consideration various risks until the time when most efficient land use come. He claimed that land value taxation implementation will create a distortion in the market as a result landowners cannot make independent decisions anymore and said that "Like any other investor they have to allocate scarce resources over time and ultimately direct them to their most productive uses. To take this role from them by means of taxing the value of their property means creating a distortion in the market as landowners would be unable to make independent decisions about their property. It resembles a kind of central planning in the land market". He advocated that landowners should be treated as other investors who have other types of capital (Hartwich;2006:62).

Furthermore, he criticized land value taxation in terms of moral complication. He stated that, according to supporters of LVT, the tax should be taken on intrinsic value of site but this value is not independent from changes in the surrounding plots. Therefore, he mentioned this taxation system is not fair. He gave some examples such that "If your neighbour builds a polluting factory, your land value and thus your LVT will fall. If your neighbour, however, opens a theme park or if a new tube line stops in front of your door, your land value will increase and with it the tax you would have to pay on it"(Hartwich;2006:62).

Additionally, he gave an example such that "Two landowners may have equally sized plots of land in similar locations, but one of them may have a big, luxurious house whereas the other one only lives in a small cottage. One may have a high income, whereas the other one lives on a small pension. Yet when it comes to paying their LVT both would be assessed on the value of the land alone, regardless of real estate values or income" and took attention to the issue that this taxation may penalize poor people (Hartwich;2006:63).

## CHAPTER III

### 3. HOW AGENDA CHANGED IN TURKEY & PROBLEM DEFINITION

Nowadays, when we look at interventions made under city planning profession, we can see that the agenda has changed compared to the past. Accordingly, we can say that new policies are needed.

In the past, increases in land value occurred as a natural consequence of growth of city or planning interventions such as planning an unplanned space, ensuring elimination of deficiencies in public areas and rehabilitation of the traffic flow which may be claimed to be beneficial to the public. Increase in value related to these reconstruction movements was able to transfer to the public by Arrangement Partnership Interest (common use reserve from redivision-DOP<sup>15</sup>) cuts based on the Article 18<sup>16</sup> of Law on Land Development Planning and Control and this betterment tax was enough for ensuring the public's benefit from the value created. Beside the betterment tax, there was de facto and relatively fair rent sharing among actors when compared with today. As stated by Tekeli: Prior to January 24 1980, urban rents were divided more equally. Old land owners take share from this rent with delegating their share to the 'yap-satçı'<sup>17</sup> in return for a flat for land basis. Bureaucrats in the city were providing share from the

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<sup>15</sup> In Turkish 'Düzenleme Ortaklık Payı'

<sup>16</sup> Related section of article 18 : During the distribution of land and landlots arranged by municipalities or governorships, sufficient area may be deducted as "common use reserve from redivision" their acreage in return for the increase in value due to the arrangement. However such common use reserve from redivision pursuant to this Article may not exceed 40% of the acreage of the land and landlots before the arrangement.

[http://www.migm.gov.tr/en/Laws/Law3194\\_LandDevelopmentPlanningandControl\\_2010-12-31\\_EN\\_rev01.pdf](http://www.migm.gov.tr/en/Laws/Law3194_LandDevelopmentPlanningandControl_2010-12-31_EN_rev01.pdf) accessed 27.07.2014

<sup>17</sup> 'yap satçı' refers to small scale unorganized building developer

rent with established housing cooperatives. Many small entrepreneurs or 'yap-satçı' was doing a pre-deposition<sup>18</sup> with this way. Small producers were taking advantage with industrial sites. Industrialist who established the factory in a large plot outside the city was using of increasing value of his property to receive loan. Old slum owners were selling slum lands to new comers and benefiting from the rent (Tekeli; 2009:92).

When we examine the process from economical perspective, we see that as mentioned by Tekeli: Big capital environment was left urban rent to small entrepreneurs and old property owners and they were taking rent of industrialization in protected domestic market with a monopolistic structure and through import substitution. As a result of these monopoly rents they do not need to land rents. There began to be a change in the division of labor in Özal economy period. Tendency of getting share from urban rents of big capital increased. They started to enter to this field even though not all of them were successful. On the one hand, Özal Government took measures to support big capital groups such as Mass Housing Act. On the other hand, Turkey started to experience deindustrialization process. Therefore, this area became attractive for big capital. Certainly, emergence of this trend did not remove using urban rent as a tool for political support because Özal used this facility with slum amnesty (Tekeli; 2009:92-93).

Over time, organized capitalist developers took place of unorganized capitalist developers. 'Urban renewal projects', 'mega-projects', 'crazy projects' have taken the place of transformation based on parcels and then the agenda began to change in urban planning. With these improvements increase in land value as a result of urban interventions reached considerable amounts such that Arrangement Partnership Interest (DOP) cuts cannot be seen satisfactory for transferring urban rent to the public. In this process actors were also changed and large real estate investment firms took contractors' place. City planning became more politicized. Politicians and investors gain political and monetary interest from these processes. On the other hand, poor local people have been suffering from existing policies and some land owners becoming rich. These processes cause increase in income inequality. Today, change of urban fabric in other words rent creation has three basic covers: the first of is 'rehabilitation of slum areas' , the second is 'transformation of areas which have disaster risk into safe living environments' and the third one is to 'present a speculative project'. On the other hand,

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<sup>18</sup> In Turkish 'ön birikim'

professional organizations and NGO's such as Chamber of City Planners or Architectures defend that most of these interventions and their legal basis are not concerned with rehabilitation of urban areas and focused on rent creation. In this chapter of the thesis how the agenda changed in Turkey for rent creation and distribution process will be examined in relation to legislative and institutional processes. Then, in the context of a new policy proposal Land Value Taxation will be presented as a policy tool in the following chapter.

### **3.1. Legislative and Institutional Process (Development of Current Policies)**

As we examined above, depending on the impact of neoliberal policies, urbanization processes and legal structure of these processes were changed. With this part of the study, we will understand that how planning institution was made an inefficient actor with these legislative and institutional processes.

#### **3.1.1. Urbanization in Turkey During the Neoliberal Era and Effects to Urban Planning & Urban Transformation**

In this section, we will examine the effects of neoliberal policies on the urban land policy of Turkey. With 1961 Constitution, Turkey started to follow a similar approach to welfare state principles but then in 1980's there became a change in economic policies. These economic changes which were related mostly towards market oriented policies became a breaking point in the urbanization process of Turkey.

Neoliberal policies has brought 'urban rent' concept to the agenda of the market. As I tried to explain in agenda setting part, related to deindustrialization process in the world economic system, big capital showed a trend to get share urban rent. As a result of this, urban areas have started to become an important commodity for the market. Economically or politically powerful parts of society have tried to make profit from urban areas. Beside this, some parts of society have found themselves in this profit making process and suffered.

Today, for some parts of society urban rent is a source of 'economic profit' and for other parts 'political profit'. Even though there are some parts who are in outside this

profit making process or suffering, most part of society tries to reach their own aim by using urban land. In order to realize their goal, bureaucratic politics and urban planning professions are used as a tool. This tool can be in various guises. Most important of them are urban planning decisions and urban transformation implementations.

People who see urban areas as a commodity don't bother about public spaces or housing for the poor. They only care about how to attract new investments which are interested in richer part of society. Özdemir and Eraydın explained this process as follows: “Neoliberal urbanization as the consequence of neoliberal forms of urban policy, transforms the built environment and the urban form in its own way by eliminating or keeping the urban public spaces under intensified surveillance and creating new privatized spaces of elite/corporate consumption. It enforces the destruction of the degraded residential neighborhoods of low-income groups who formerly constituted the traditional working-class, for speculative redevelopment and constructing large-scale mega projects to attract corporate investment reconfiguring the existing land-use patterns, creating gated communities, urban enclaves and other purified spaces (Özdemir and Eraydın;2012:2)”. As Özdemir and Eraydın stated, neoliberalism tries to change cities in manner which it wants through the urban transformation process. In addition this transformation targets low income groups' residential areas which cause gentrification.

During these processes government and private sector gain jointly. On the one hand governments try to trigger market and create employment through the construction market mostly as a result of electoral concerns, on the other hand private sector tries to maximize their profit. Low income local people become victims of this process which is profitable for governments and the private sector but not for them. “An extensive part of the neoliberal policies are today made of urban policies, which boost the private sector, construction, finance and tourism sectors being the leading ones. These neoliberal policies aim to eliminate all kinds of barriers against the construction firms involved in the urban transformation projects, pass the needed laws and regulations as soon as possible, and change the zoning status of areas where previously no development was allowed to facilitate the operation of the construction sector (Özdemir and Eraydın;2012:3)”. In this process, obstacles of neoliberalism such as law or disputes in urban plans are solved by central and local governments.

Ways to deal with these obstacles will be examined in detail in the section on legal regulations. It will be discussed how new enacted laws related to urban planning make it easier to reach the goal of neoliberalism.

### **3.1.2. Legal Regulations**

State is major actor who plays a role to give a shape to physical environment. Yılmaz has addressed this issue and pointed out to the importance of state interventions which cause spatial changes. For him, private real estate market is not qualified enough to create rent. State should prepare required environment to invest (2011:28). One dimension of preparing this environment is to enact necessary laws. There are some important laws which are directly related to production of rent with urban planning and transformation processes. These laws can be interpreted as making necessary changes in the legal to realize the maximizing profit aims of neoliberal policies on urban land.

The parallel problem with these laws is that huge authority is given to the public administrations. For instance, state can declare any place as urban transformation area with this huge authority. In a country like Turkey which professions' recommendations are not taken into consideration enough by politicians, this authority problem is dangerous. Because, city planning interventions are interventions to lives of people and people can suffer from results of these interventions over years.

#### **3.1.2.1. Slum Relief Laws**

As a result of populist approaches of multi-party politics, politicians saw slums as vote sources. They offered title deeds and infrastructure as election promises. Accordingly, they enacted first Slum Relief Law in 1966 (Adaman and Keyder;2005: vi). Thanks to this law illegal housings gain legal status and had the necessary infrastructure.

According to Eke, slums have been a rent-seeking method for illegal agents with abusing supply/demand balance in housing market, occupying public lands then selling them. This is because governments who could not cope with migration from rural to urban and provide necessary auditing for shanty settlements. Therefore, in addition to being low income housing slums have become neighborhoods that people who have



more than one building gain illegal income (Eke; 2000:44). As a result of slum reliefs, public lands are opened to private ownership and urban rents are created. Urban land and building speculation became investment area of commercial bourgeoisie who increase their capital (Akin; 2007:266). Besides commercial bourgeoisie, these transformation processes are seen as an opportunity also by property owners. Slum populations in cities are transforming entrepreneur individuals who want to get a share of the pie (Şengül<sup>19</sup>).

### **3.1.2.2. Law No 5393, Municipality Law Article No 73, Urbanization and Development Areas**

According to this law: “The municipality, may adopt urbanization and development projects in order to re-construct and restore the ruined parts of the city; to create housing areas, industrial and commercial zones, technology parks and social facilities; to take measures against the earthquake risk or to protect the historical and cultural structure of the city<sup>20</sup>”.

The problem with this law is that authorities can determine anywhere as urban transformation area without any limitations. This law was the first step in giving excessive authority to the state.

### **3.1.2.3. Law No. 5366, Preservation by Renovation and Utilization by Revitalizing of Deteriorated Immovable Historical and Cultural Properties**

According to this law, areas can be declared as Urban Renewal Areas by the Renewal Council and following it renewal projects started especially in İstanbul such as Sulukule, Tarlabası, Fener-Balat-Ayvansaray and Süleymaniye districts. Today, an important part of urban renewal areas includes the historic neighborhoods in the city

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<sup>19</sup><http://www.evrensel.net/haber/74227/kentsel-donusumu-dogru-anlamak.html#.U7RB1o1rPIU> accessed 02.07.2014

<sup>20</sup>[www.ibb.gov.tr/sites/Avrupa-Birligi/Documents/E7518L5393.doc](http://www.ibb.gov.tr/sites/Avrupa-Birligi/Documents/E7518L5393.doc) accessed 02.07.2014

centers. Despite becoming Conservation Site<sup>21</sup>(protected area), having original architectural and cultural pattern, interest groups often see these areas as the source of rent as a result of their locations. In addition to creating investment areas by demolishing historical pattern, local people are displaced.

Tarlabaşı Renewal Projects is one of the worst projects which people suffer. Lewis and Letsch stated the problems with law in their blog as that <sup>22</sup>: “it enables local authorities to expropriate property in dilapidated areas in order to implement renewal projects without the consent of the house owners. On the other hand, it gives municipalities the power to suspend and overrule decisions by the Council for Preservation of Sites of Historic Interest to declare a certain area a Conservation Site as has happened in Tarlabaşı. The potential impact of a Renewal Council ruling has sparked concern with UNESCO – in a report published by an UNESCO commission the inspectors indicated that Law No. 5366 did not support preservation, but rather cleared the way for the demolition and the destruction of historic buildings. UNESCO suggested an amendment of the law in order for Turkey to adequately protect its historical sites.”

Again there can easily be observed an authority problem with this law. Areas can be identified for renewal projects without the consent of house owners. Also, local administrations have more authority on conservation and historic sites ironically rather than professions.

#### **3.1.2.4. Law No 6306, Disaster Law**

It is obvious that big part of Turkey’s land is under earthquake risk and so measures to deal with this risk and with reconstruction efforts are necessary. According to this law cities may be saved from this disaster by renewal projects in risky areas. The problem is that the law seems to serve mostly developers’ interests: “through expropriation and

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<sup>21</sup> ‘Conservation Site’ refers to ‘Sit Alanı’ in Turkish. According to Article 3 of Law No 2863: "Conservation site" shall be cities and remains of cities that are product of various prehistoric to present civilizations that reflect the social, economic, architectural a.s. characteristics of the respective period, areas that have been stages of social life or important historical events with a concentration of cultural property and areas the natural characteristics of which have been documented to require protection. <http://www.kulturvarliklari.gov.tr/TR,43249/law-on-the-conservation-of-cultural-and-natural-propert-.html> accessed 27.07.2014

<sup>22</sup> <http://www.tarlabaşıistanbul.com/glossary/> accessed 02.07.2014

forced evictions, some prestigious places become available for investments and regeneration. Construction companies and firms will be very benefited by this law. Moreover, these evictions might affect not only middle income people but also the most vulnerable groups<sup>23</sup>.

After laws mentioned above, disaster law proves huge authority of state on people's sheltering right. Government can declare anywhere urban transformation area. This law is interpreted as legitimization of urban transformation processes by disaster. Tekeli stated that urban transformation projects are politicized. Earthquake risky areas and slum areas are tried to be transformed. So over a year from 350 to 400 thousand additional housing demand is wanted to be created and falling into a economic crisis is to be prevented. If there is a risky building, the first that should come to mind is to strengthen it with a cheap way. However this law is trying to demolish all buildings even if they are healthy. There is another critique which shows there is no legitimacy base. The number of housing which is said to be demolished under this law is around 7 million. On the other hand according to earthquake engineers this number is 7 thousand (Tekeli<sup>24</sup>). This huge difference shows that there will be lots of people who will lose their houses despite of not having any earthquake risk. Also lots of urban lands will be produced in order to construct new building projects. This will give rise to economic activity and employment will be created but at the expense of substantial human suffering.

### **3.1.2.5. Changes on Authority of Mass Housing Administration (TOKI) with Various Laws**

In addition to above legislations, Mass Housing Administration, which was established with 2985 The Housing Act in 1984, had various important changes after 2002 which are important in terms of rent creation.

At first, TOKI's mission was to product house for low income people but then it started to build various projects for low / medium / high income groups. In the report of Chamber of Civil Engineers the transition period stated as in follows: legal arranging

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<sup>23</sup> <http://direitoamoradia.org/?p=13059&lang=en> accessed 02.07.2014

<sup>24</sup> <http://www.bianet.org/bianet/toplum/146926-afet-yasasi-tapuyu-deldi> accessed 02.07.2014

about operating principles, determining (in fact extending) powers and responsibilities of TOKI were carried out in this period. Mission fields of TOKI extended from tourism, small industrial enterprises to health and education with the 'Regulation Related to Usage of Resources of Mass Housing Administration <sup>25</sup>' in 2002. In addition to this, TOKI is given the rights such as establishing companies for housing sector /becoming partner to companies /making housing projects in domestic or abroad / developing profitable projects in order to ensure source. Furthermore, duties and obligations of General Directorate of Land Office were given to TOKI by law 5273 in 2004. TOKI now became a gigantic company which use public resources, make investments in almost every field. It became an enterprising public institution at a time which public sector is removed from economic activities. It has opened a special place for itself in merchant-state relation. The legal process which provides to keep TOKI outside public control is started with closure 'Mass Housing Undersecretariat<sup>26</sup>' and 'General Directorate of Land Office<sup>27</sup>'. This process continued with removing TOKI from the scope of Public Procurement Act. Lastly, TOKI has removed from the jurisdiction of the Court of Auditors and there has been left only State Supervisory Board. Then, TOKI began to live its golden age with 'urban transformation projects'. TOKI extended its authority with the delegation 'making expropriation and development plan during slum transformation applications' with the law 5162 in 2004. Then, its powers have expanded with the law 5366. Moreover, all powers of Ministry of Public Works and Settlement in slum areas released to TOKI in 2007 with the law 5069. In addition all these privileges, TOKI gained the power which allows taking Treasury lands without any payment with offering of related Minister & Finance Minister and approval of Prime Minister (Chamber of Civil Engineers TOKI Report; 2009:42).

### **3.1.2.6. Assessment of Legal Regulations**

When legal regulations are assessed in general perspective, it can be said that all of them make easier of state intervention during rent creation process. It is remarkable that, most of these regulations were accepted after 2002 which is the year AKP government came to the power. So, these regulations can be interpreted as an indicator for rent

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<sup>25</sup> In Turkish 'Toplu Konut İdaresi Kaynaklarının Kullanım Şekline İlişkin Yonetmelik'

<sup>26</sup> In Turkish 'Toplu Konut Musteşarlığı'

<sup>27</sup> In Turkish 'Arsa Ofisi Genel Mudurluğu'

creation behavior of AKP government. The reason behind of this behavior could be associated with that the government follows growth basis economy policy and one of the dynamos of this policy is construction sector. There are some criticisms which claim that the time earlier than 2002 was better in terms of social justice. For instance, Article 73 of Municipality Law (which is one of the most criticized law) is interpreted as follows: “this is a legal arrangement that makes local people living in squatter areas displaced, creates rent and leaves public and society out of rent distribution” (Yılmaz;2011:45).

In this section of the study, legal changes emerged in the neoliberal era of Turkey’s urbanization were discussed. In the following part, we will explain the rent creation implementations/instruments which are mostly related discussed legal regulations.

## **CHAPTER IV**

### **4. EXISTING RENT CREATION IMPLEMENTATIONS AND ROLE OF ACTORS IN TURKEY**

#### **4.1. Introduction**

In this part of the thesis, question of ‘how the urban rent is created’ will be explained. In this context, separation between ‘spontaneously rent creation as a natural result of urban growth’ and ‘instruments of current urban land policy of Turkey which focuses on rent creation’ will be investigated. For instance ‘gaining rent with proximity to the city center is a natural result of growing of the city. On the other hand ‘speculative projects’ are generally functioning as instruments which serve for current rent creation focused policies. Furthermore, intention of some interventions such as ‘development plans or change in development plans’ cannot be assessed truly and it is difficult to separate whether they serve as a rent creation instrument or necessary intervention.

After rent creation interventions, current roles of different stake holders in rent creation from urban land will be discussed.

#### **4.2. Rent Creation Instruments and Processes**

There has been variety of instruments to generate urban rent. Actually all these instruments increase the value of surrounding land and lead to buy urban land for speculative purposes. These are;

### **\*Proximity to city center (CBD) & neighborhood**

Relation between urban rent and distance from center can be explained by bid rent theory. “The theory states that rents are bid upwards close to the city center as households attempt to minimize transportation costs. Residents living close to the city center have to travel less to get work or entertainment centers, and this decreases disutility. Conversely, rents are lower away from the city center because transportation costs for residents there are high. Thus, through competition to minimize transportation costs, rents become a negative function of distance from the city center (Trussell; 2010:5)”. Here the question is ‘How is bid-rent theory related to our subject’. Because lands in the city center are scarce, these areas have more tendency to become subject to speculation. Monopolistic facilities of these areas such as vicinity to mall/ residences and offices could become rent creation tools.

### **\*Through city development plans (new plans/ plan change/ plan modification)**

Unfortunately, this type rent generation is related generally how politicians use urban planning profession as a rent creation tool.

Generally, there are two main ways to realize this;

When cadastral land is transformed to planned area through development plans, value is created. Even though there are attempts to transfer this created value to the public, these attempts are not influential. Related to this produced value, people who are taken advantage of new planning regulations have to pay a betterment tax which is named as ‘share of partnership arrangements’ (DOP<sup>28</sup>-Düzenleme Ortaklık Payı). According to Law No 3194, during expropriations in order to implement urban plans, state can take some part of your land at a certain rate without any compensation. This land is taken as a result of increase in land value after planning implementations than is used to build

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<sup>28</sup> According to Article 18 of Law No 3194 : During the distribution of land and landlots arranged by municipalities or governorships, sufficient area may be deducted as “common use reserve from redivision” their acreage in return for the increase in value due to the arrangement. However such common use reserve from redivision pursuant to this Article may not exceed 40% of the acreage of the land and landlots before the arrangement.

[http://www.migm.gov.tr/en/Laws/Law3194\\_LandDevelopmentPlanningandControl\\_2010-12-31\\_EN\\_rev01.pdf](http://www.migm.gov.tr/en/Laws/Law3194_LandDevelopmentPlanningandControl_2010-12-31_EN_rev01.pdf) accessed 27.07.2014

some public spaces such as green areas, schools, roads on it. This rate<sup>29</sup> should be maximum %40 and these land deductions could be used only for public purposes.

The problem is that maximum rate of 'DOP' is same for all lands, but after some plan modifications which includes only few parcels, increase in land value could be too much over than taken according to this rate (Kaya:6). At this point, land owner take difference and benefit from rent. Another problem is that, DOP can be taken just for one time. If there is a second planning regulation on land, state cannot take DOP again. Construction rights can be increased with further changes in plans independently of earlier decisions or land use functions can be changed. For example, if a housing area becomes a commercial area or if construction rights increase from 3 flats to 6 flats, land value increases. These are some methods to create rent with changes on some parcels in urban plans. In order to avoid these, recently some changes are planning to be made in 3194 Law about DOP. According to these changes rate of DOP will increase to %45 and DOP can be taken more than one time (Güney<sup>30</sup>). This change in regulation may prevent plan modifications carried out for the sole purpose of creating rent.

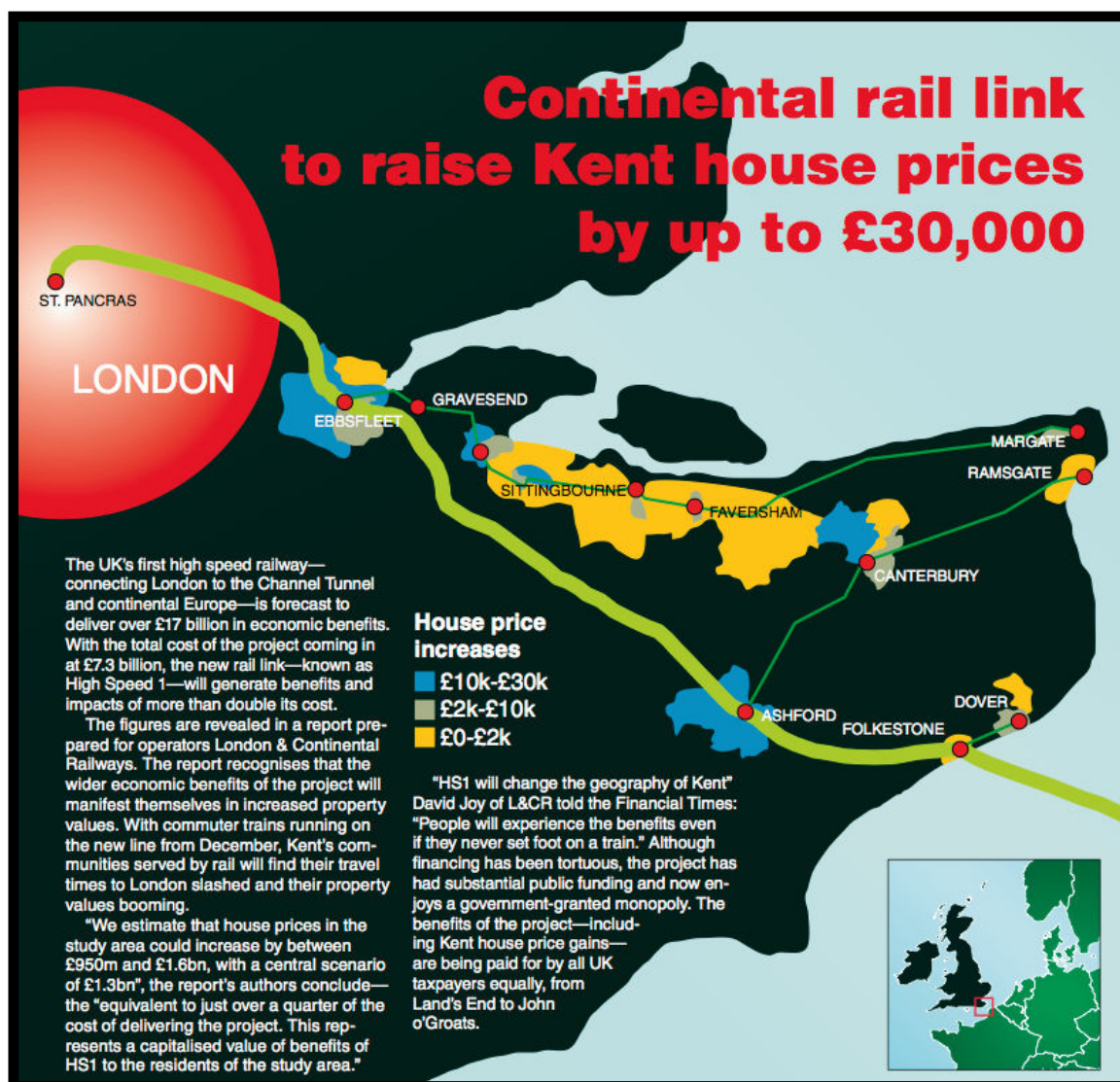
In addition to these, there may be some infrastructural investments which were decided in urban plans like a new railway. These kinds of investments also lead to increase in land value but the important question here is whether these projects done for public benefit or land speculation.

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<sup>29</sup> Rate is determined in Law No 5006

<sup>30</sup> <http://yenidonem.com.tr/yeni-imar-yasa-taslaginda-bedelsiz-terk-dop-artiyor.html>  
accessed 02.07.2014





**Figure 4.1. Effect of Infrastructural Investments**

Source: <http://www.andywrightman.com/docs/LVTREPORT.pdf>

If changes in urban plans will be done for the public benefit, then there is no ethical problem but if changes will be done for benefit of certain groups, this is a big problem in terms of moral hazard. In Turkey most changes are clearly done for the second purpose. During the decision making process scientific information<sup>31</sup> is ignored and the people in profession are excluded as a result of the pressure of the central authority over the local authorities. In many contexts politicians interfere with the technical area, take important decisions by themselves pretending as if they had left that area for city planners. However, they see them as technicians who draw plans rather than city

<sup>31</sup> 'Scientific information' concept is widely used in urban planning literature. It refers to urban planning principles which are based on scientific methods.

planners (Şengül; 2007:85). Third Bridge Project can be given as an example to these processes. This project was started to be constructed contrary to the 1/100.000 scaled İstanbul Environmental Plan<sup>32</sup> study. A transportation decision which is not included in this plan which is known as the constitution of İstanbul was implemented in a ‘top-down’ manner. At this point the ‘scientific information’ that we mentioned above is not taken into account. All of these applications are harmful to objectivity of decisions and scientific aspect of the profession.

### **\*Urban Transformation Projects**

“At the 1st International Seminar on Urban transformation held in Den Hang in August, 1958, the experts agreed on the fact that the fundamental purpose of urban transformation is to change the urban environment on purpose through a planned interference and an injection of regeneration in order to address to the needs of urban life and work of available areas at present and in the future (Eğercioğlu and Özdemir: 9).”

Today, urban transformation is one of the ways to create rent by urban planning as described in the section on legal regulation above. In the section ‘slum relief law’ we see that slum reliefs worked as a social policy as a result of slum dwellers could get their title deed and necessary infrastructure. There was a transformation on-settlement. Today the transformation process evolved to a more capitalist shape. There is important relationship among rent, landed property and capital which can be investigated through urban transformation projects as Yılmaz focused on saying: “Urban renewal project areas are the spaces where the state has an active intervention in order to solve the contradiction between capital and land-based interest. Intervention of the state converts this contradiction and creates the political and ideological struggle formation. Consequently, development rights of squatter owners decrease; even, most of the squatter owners lose their landownership position. Urban lands and rent is transferred to political power and an interest group which is supported by the municipalities (Yılmaz; 2011:3).”

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<sup>32</sup> According to Law No 3194 : “Environmental Plan” is the plan that lays down settlement and land use decisions such as housing, industry, agriculture, tourism, transportation in compliance with regional and national planning decisions. [http://www.migm.gov.tr/en/Laws/Law3194\\_LandDevelopmentPlanningandControl\\_2010-12-31\\_EN\\_rev01.pdf](http://www.migm.gov.tr/en/Laws/Law3194_LandDevelopmentPlanningandControl_2010-12-31_EN_rev01.pdf) accessed 27.07.2014

As described by Yılmaz, today urban transformation projects are too far from functioning as a social policy. However, dwellers in transformation areas lose their land owner position as a result of there is no ‘on-settlement transformation’. Interest groups prefer to send dwellers to suburbs of the city in order to evaluate transformation areas which are located in advantageous positions for more profitable projects. Furthermore, urban transformation is seen as a conclusion to problems related with capital accumulation and land rent has become an important way to provide capital accumulation.

### **\*Speculative Rent Projects**

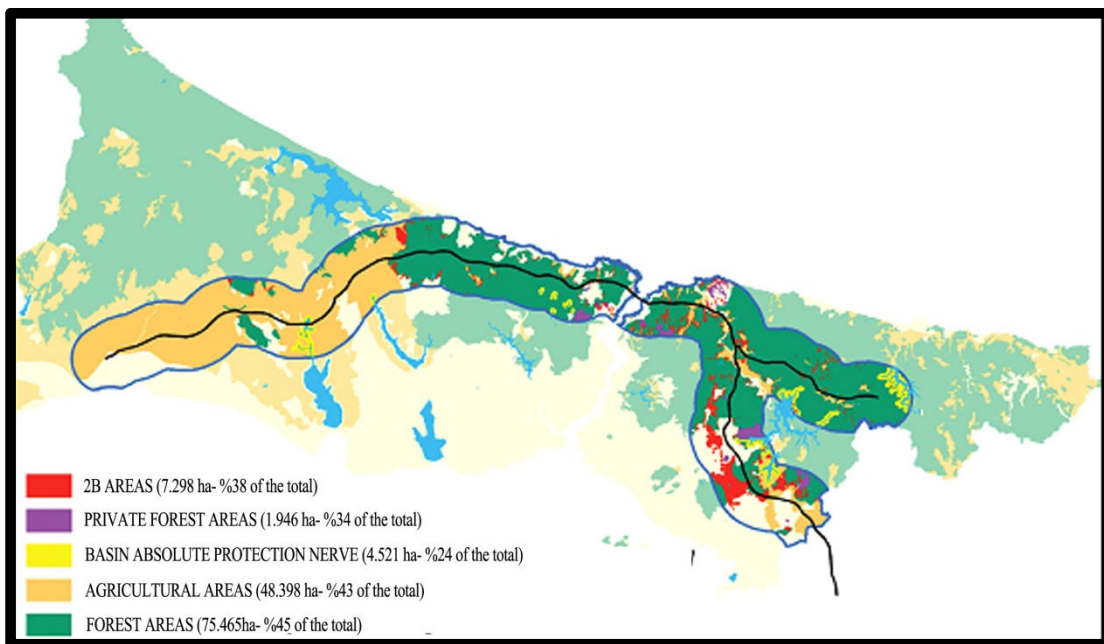
Speculative projects could be defined as planning projects which aim to provide rent for interest groups rather than providing public welfare.

Before a speculative project has been announced to public, some interest groups who are in close relation with decision makers have known about them and they buy the land near project location. After project is explained by media and people being informed, interest groups sell these lands too expensively. They obtain an unfair advantage over land.

For example, during AKP government period, there are lots of projects which are criticized as the speculative rent projects. Third Bridge, Canal İstanbul and the third Airport projects are among the much-criticized by professions, academicians and NGOs. Main criticism is that all of these projects violate planning principles and all of these projects will bring great rents.

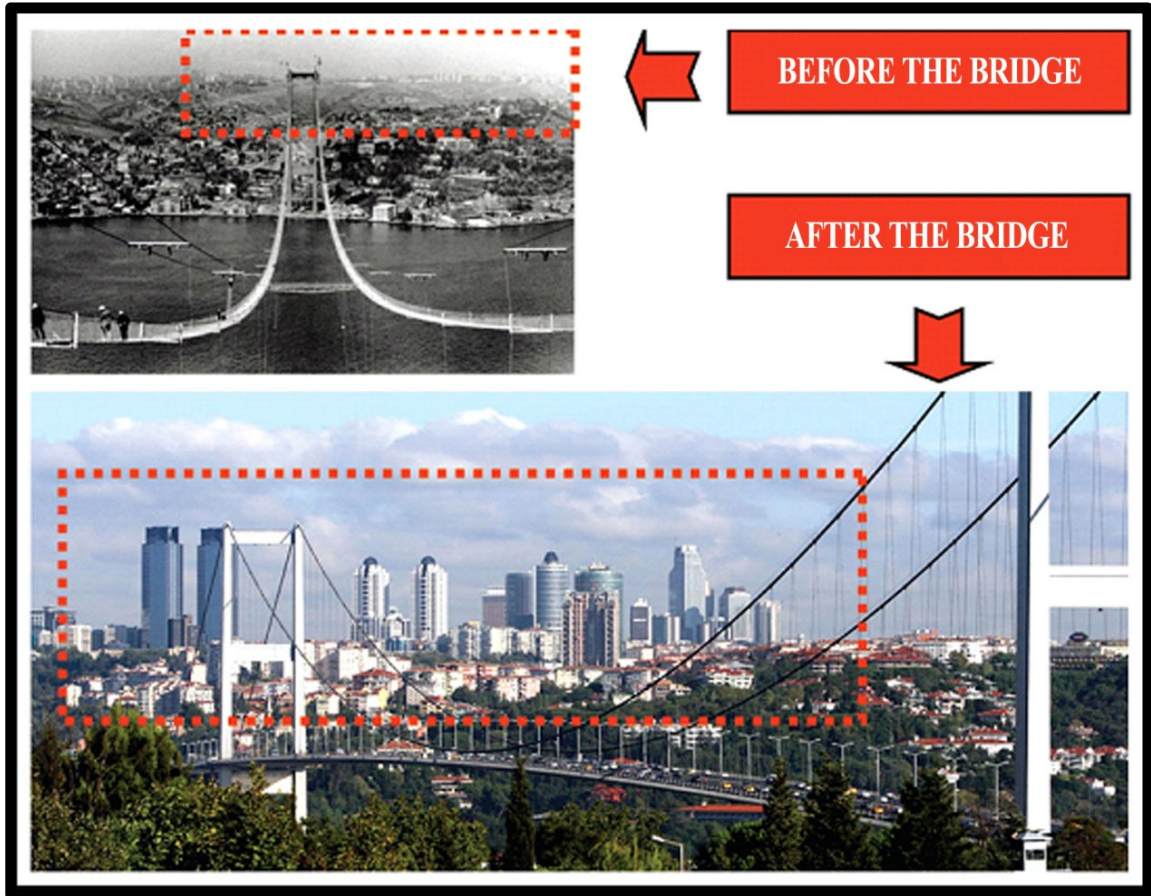
Here the question could be: ‘how it is known that all of these projects violate planning principles’. According to critics, one of the most important principles of urban planning is ‘public interest’ concept. All planning applications should be done with taking into consideration how life of public can be better than before planning interventions. Planning discipline does not aim to produce rent projects and contribute wealth of some certain interest groups. Planning discipline aims providing a healthy psychical environment, social facilities and so livable happy environments. Analysis made by related professional organizations show that none of these projects bother about these goals. For that reason, it can be interpreted as these projects are constructed despite the public and professions’ objections. For instance third bridge project which is assessed as

a rent creation project is one of the debatable interventions of current government as i will discuss in the following parts again. Lots of professional chambers and academicians stated that third bridge won't solve the traffic problem of İstanbul. Therefore, city planners did not take into the third bridge to the İstanbul Environmental Plan. In addition to traffic problem, there is %34 of private forest area, %46 of forest area, % 38 of 2B spaces, %43 of agricultural land locate in impact zone of third bridge and its connecting roads (2010:28). These rates indicate that construction of third bridge could lead various irreversible environmental problems.



**Figure 4.2. Impact Zone of Third Bridge**

*Source: translated from Şehir Plancıları Odası İstanbul Şubesi 3. Köprü Değerlendirme Raporu; 2010:29*



**Figure 4.3. Before and After Bridge**

*Source: translated from Şehir Plancıları Odası İstanbul Şubesi 3. Köprü Değerlendirme Raporu; 2010:8*

As it can be seen from previous bridges which were built, it is probable that areas near the third bridge will be opened to construction and North Forests of İstanbul would be lost as can be guessed from the photo above.

#### **4.3. Role of Actors**

While examining role of actors we can differentiate between actors who benefit from urban rent and those suffer from it. Governments and interest groups meet on same profit ground. Unfortunately, local governments and city planners are inactive actors of this process as a result of top-down approach policies of government. In consequence of this top down ruling tradition elected persons behave as if they have whole authority in an illegitimate manner. Today, in Turkey there is least or no consultation with the

lower level of management such as local governments and urban planners. Additionally, meetings with local public are inadequate during decision making processes. Most of the public, especially poorer parts could not take their right and suffer from this process. There is unfair share of authority also land value and rent among included actors.

After roles of different stakeholders are examined, in the following parts of the thesis i will make some proposals with touching on governance concept for a new division of labor.

#### **4.3.1. Role of State**

Environment and Urban Ministry or municipalities are main representatives of the state's role as a decision making mechanism. Interventions of these institutions such as improvement plans, amnesty laws, and various legal regulations are the most important sources of rent creation. Today, there are some criticisms about working of these decision making mechanisms like that they ignore public welfare. There are corruption criticisms which claim that planning authorities and private actors make common interest arrangements without taking into consideration of public welfare. These kinds of criticisms could be an indicator that legal sanctions are not sufficient.

Bureaucratic ruling tradition of Turkey is another determining factor in role of state. One of important problematic side of bureaucracy is that bureaucrats' position between central government and public. There are differences between demands and expectations of public and political authority. Bureaucrats have obligation to do what government wants but actions that government wants are not always legitimate. Referring to the bureaucracy issue, Tekeli pointed out that increase in urban land shows 'amount of milking land market by private ownership<sup>33</sup>'. It is clear that how powerful will be political power which obtains to get the revealed value. In such a strong political pressure, urban planning may be a toy, a sleep tool, a cover (2009:32). Unfortunately, today, experiences in Turkey reflect the situation Tekeli told about.

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<sup>33</sup> In Turkish 'özel mülkiyetin ortaya koyacağı yağma miktarı'

### 4.3.2. Role of Private Sector

During rent creation processes boundaries of role of private sector are determined by state regulations. Unfortunately, as a result of interest relations between state and private sector, these boundaries are too flexible. Time to time, legal regulations lose their validity in order to protect private sector actors. Predictably, local public as a weak side is suffered from these privileges.

About actors who have big share on transformation pie, there is a research which is called ‘dispossession networks<sup>34</sup>’. Dispossession networks is mapping and publishing study which reveals relations between capital and power. Aim of the study is to make these relations visible and therefore arguable. People who work for this research stated that while they were mapping they realized that urban transformation projects are made by always some certain companies. (Türkkan<sup>35</sup>).

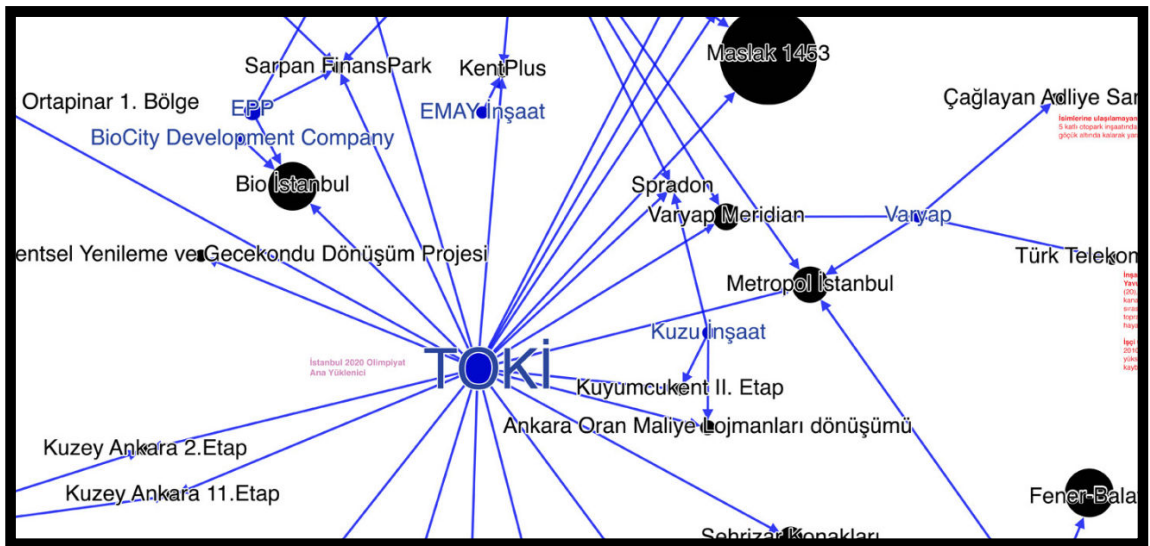
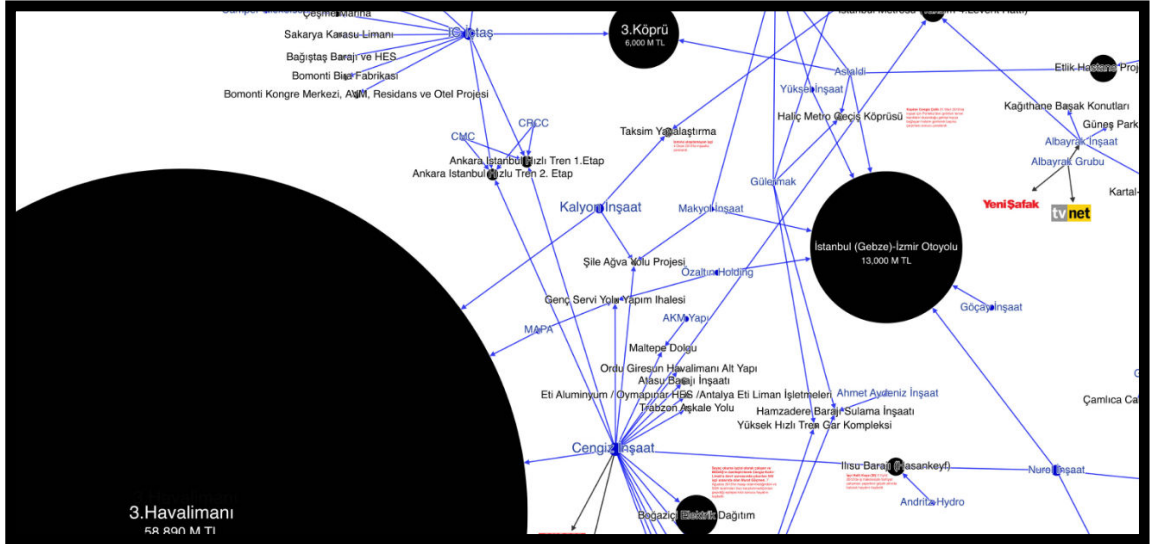


Figure: 4.4. Dispossession Networks

Source: <http://mulksuzlestirme.org>

<sup>34</sup> In Turkish ‘mülksüzleştirme ağları’

<sup>35</sup> <http://birgun.net/haber/iste-mulksuzlestirmenin-agi-4889.html> accessed 02.07.2014



**Figure 4.5. Dispossession Networks**

Source: <http://mulksuzlestirme.org>

It can be observed above; every time some certain groups take part in these kinds of rent projects. There is a complex network among them. These huge capital groups and their profit relations with political powers can be interpreted as an obstacle against transition urban rent to the public.

#### 4.3.3. Role of Local Public

In Turkey, local public became a part of rent creation processes after amnesty laws were enacted. Thanks to amnesty laws, illegal squatter houses in cities gain legal status and legalization of these spaces brought a huge rent together. Yılmaz interpreted legalization of squatter houses as “informally, legalization of squatter houses might be considered as an intervention of economic liberalism to cities spatially. Increase of rent is aimed for including squatter areas into urban land market and having investments of capital in squatter areas (Yılmaz; 2011:51)”. In addition to amnesty laws, there started an improvement plan period for rehabilitation of squatter areas similar to urban transformation projects of today. “Within a short period, the fact that most of these plans are realized is an indicator of rent expectations. At the same time, as municipalities care for votes of people living there, those plans were implemented precipitately (Yılmaz; 2011:53)”. Public contributed to rent creation with occupying



state lands and benefited from the rent taking title deed. Although government aimed mostly political rent at those times, today the process evolved to gain more monetary rent for organized interest groups as we talked about in role of private sector part. Unfortunately, due to lack of participation in the planning application processes, local people are not included to these processes as required. While private sector and government take the large portion of rent, the local population cannot get the right share.

## **CHAPTER V**

### **5. A NEW LAND POLICY PROPOSAL FOR HOW TO TRANSFER URBAN RENT TO THE PUBLIC**

#### **5.1. Introduction**

After above analysis, it can be interpreted that, there are two main problems with current land policy of Turkey. First one is improper rent creation such as land speculation. The second is sharing urban rent in unfair manner. Considering these problems:

Land policy of Turkey should be to introduce a new taxation system to transfer urban rent to the public and to finance local services. It is believed that this tax reform will prevent improper rent creation and be beneficial for future economic improvement of Turkey.

In this part of the study, questions ‘For which rent creation instrument, which distribution instrument is suitable’ and ‘why land value taxation could be an alternative solution for land private ownership problem and speculative projects in the context of transferring urban rent to the public’ will be discussed. Related to first question, principal issue to be emphasized is that ‘rent creation instruments do not serve for the same purposes in every time’. Therefore, these purposes should be classified appropriately in practice and should be matched with suitable rent distribution techniques. In this context, various examples and existing rent distribution instruments will be examined comparatively. It will be explained that ‘whether matching is possible in practice’. For instance, ‘distribution of rent’ from making a development plan in a

cadastral area and from constructing a bridge shouldn't be with same instruments. In the first example (development plan) rent creation is the result of an intervention which could be for public welfare but the second example is debatable issue in terms of public welfare (for Turkish practices).

The point to be achieved as a result of these discussions is that as stated by Tekeli: 'providing urban land is to be used for the benefit of the public'. This is not something other than regulation the relationship between individual interest and public welfare (Tekeli; 2009:37). In thesis, there will be analyzed various rent distribution instruments in order to regulate these relations. Additionally, there will be developed a proposal on discussed subject with taking into consideration balance between private and public interest.

## **5.2. Policy Formulation**

This part of study involves analysis and identification of alternatives to solving urban rent sharing issues. There are several choices for resolving agenda items.

### **5.2.1. Alternative Recommendations and Examples for Redistribution of Rent**

This part will focus on different tools to transfer urban rent to the public. Alternatives will be analyzed in order to decide the implementation tool of new land policy proposal.

#### **5.2.1.1. Land Value Taxation**

Henry George proposes that there need to be change on system of property taxation. 'Property tax' on land should be increased and tax on improvements depends on buildings, infrastructure should be decreased.



**Figure 5.1. Land Value Taxation**

Source: <http://www.henrygeorge.org/rem3.htm>

In the example above, each parcel has a value of \$10,000. Conventional tax system levies a tax of 3% of the total value of the real estate. Instead of this system it is proposed that a levy of 6% on the land value alone with no taxes on improvements such as buildings or infrastructure. As a result of each parcel has the same land value, tax amounts would be the same (\$600). This system can be concluded as “a tax on land value penalizes land speculation and rewards development”<sup>36</sup>.

#### 5.2.1.1.1. Taxation Urban Rent in Turkey

There have been some taxation implementations in Turkey which are not similar to Land Value Taxation.

\* **Expenditure Shares (Şerhiyeler):** Implementation of this tax has been terminated in 1981 and by law No 2464. Expenditure share was a kind of real estate tax which was taken by local governments as a result of increase in the value of assets with urban planning implementations, infrastructure services (Ökmen and Yurtsever;2010:68). When we compare with Henry George’s proposal, there is no much similarity. This tax was taken for ‘improvements’ on land such as buildings or infrastructure. As will be remembered, Henry George supported to decrease tax on improvements in his proposal.

<sup>36</sup> <http://www.henrygeorge.org/rem3.htm> accessed 02.07.2014

According to some recent news<sup>37</sup> this tax will enter into force again. It is stated that the tax will be implemented only for lands which are obtained high income as a result of extraordinary increase in value. It is also mentioned that taxation will be requested for places which have potential to create high rent, developing lands with planning decisions, places which have rising real estate values, around projects made by state such as bridge, shopping center, and hospital.

\* **Property Value Increase Tax:** Aim of this tax explained by Ökmen and Yurtsever as: in order to decrease attraction of property investments, value differences arising from selling buildings and lands will be included for taxation. This tax also was repealed in 1982 (Ökmen and Yurtsever; 2010:69).

\* **Income Tax Law / Value Increase Income Taxation:** According to this law, if people sell their real estate before 5 years has passed, this gain will be taxed as value increase income taxation (Ökmen and Yurtsever;2010:70). This implementation could be successful but the problem is official selling prices do not reflect the actual prices. The same problem could also come to the agenda for Land Value Taxation implementation. In order to prevent from these kinds of moral hazards, purchasing and valuation of real estates should be audited publicly.

As can be seen from the experiences that we have examined, taxation urban rent in Turkey could not prevent land speculation and so has never been reached expected level. There are some political and ideological reasons behind this failure but the most important reason is lack of a strict legal regulation for taxing land value.

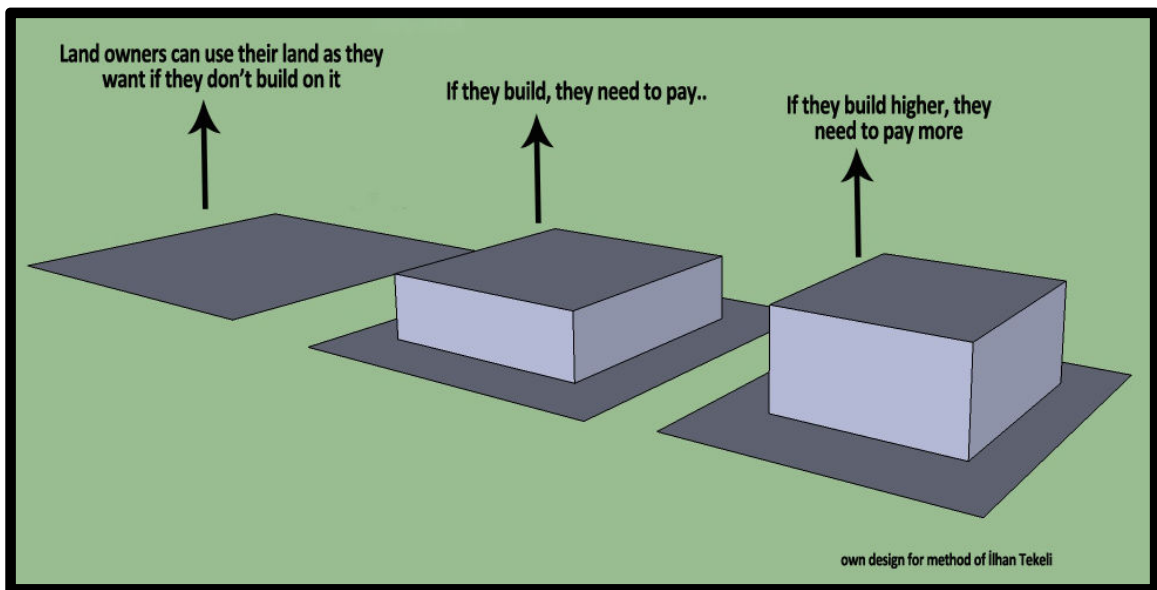
#### **5.2.1.2. Recommendations of İlhan Tekeli**

İlhan Tekeli has two proposals available about realization possibility of urban plans by transferring urban rent to the public. The first of them is, trying to transfer urbanization rent to the public with making changes in implemented policies, understanding of planning (instead of changes in institutional structure). This approach is related with converting land which is on the fringes of the city to an urban land with planning, bringing infrastructure in order to provide additional values for public administration.

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<sup>37</sup> <http://www.emlakdanismanlari.com/emlak-sektor-haberleri-28/emlak-serefiye-vergisi-geri-geliyor-1346.html> accessed 30.07.2014

The other is, limiting control of land owner on urban land with two dimensions and bringing new regulations for third dimension rights. According to this proposal, land owners can use their land as they want if they don't build on it. But if the soil is converted to an urban land by building on it, land owner will purchase building rights from the public (Tekeli; 2009:64-65). Thanks to this method, land value increases will be transferred to the public substantially.



**Figure 5.2. Purchasing Building Rights**

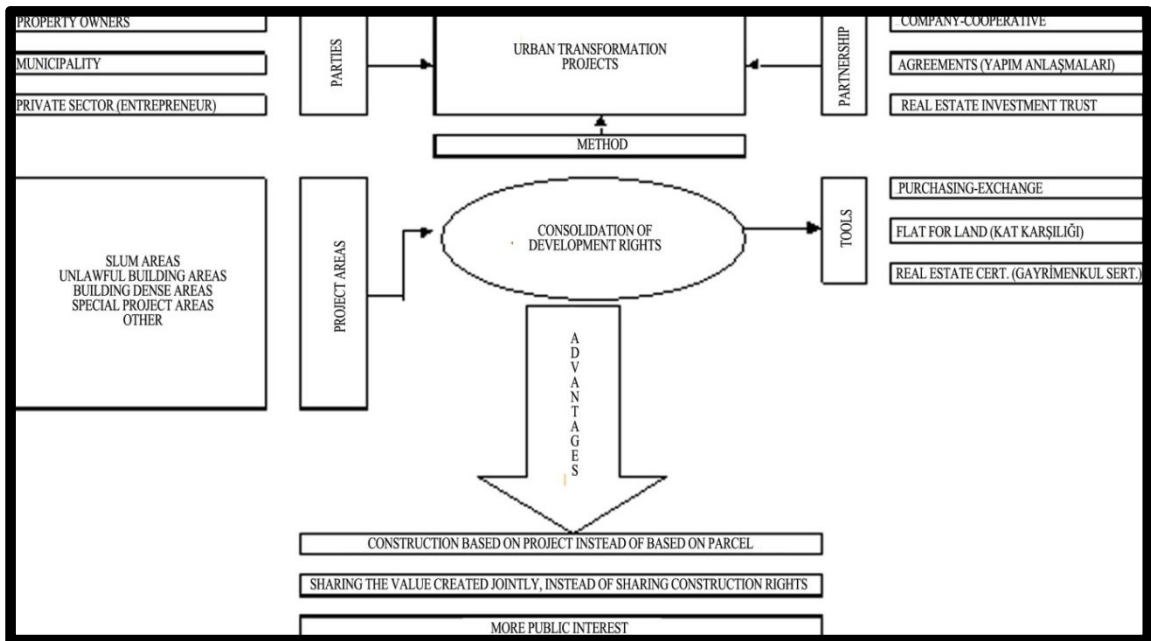
*Source: own design*

Proposal of Tekeli is different from Henry George's proposal, although it seems that this proposal can prevent providing unfair rent which is obtained from plan modifications. Nowadays, one of the biggest problems of the big cities is segmented planning decisions which are taken on the basis of a parcel. These kinds of decisions are generally taken for profit of some certain groups. With Tekeli's proposal, because of interest groups would have to buy construction rights as commodity from public administration, this situation would not be very profitable for them. Therefore, they won't want to construct high buildings or they will pay high taxes. In conclusion, both choices are good for future of cities which were transformed to a concrete mass nowadays.

### 5.2.1.3. Consolidation of Development Rights

Another proposal for transferring urban land to public is 'Consolidation of Development Rights'<sup>38</sup>. This instrument is used generally during urban transformation processes.

According to Consolidation of Development Rights Instrument, existing development rights which are on the basis of parcel are brought together on a project basis. Then created value is shared in the frame of public and private sector cooperation (Göksu; 2003:3)



**Figure 5.3. Consolidation of Development Rights**

*Resourse: translated from Faruk Göksu, Kentsel Dönüşüm Projelerinde Yenilikçi Yaklaşımlar, Kentsel Dönüşüm Sempozyumu, Yıldız Teknik Üniversitesi*

There are some successful examples of this instrument in Turkey such as 'Dikmen Valley Project' and 'Portakal Çiçeği Urban Transformation Project'. Portakal Çiçeği Valley Project Model introduced a new approach to the participatory dimension of 'Project Democracy' concept with aiming direct participation to decisions of people who affected from the project. In this project, questions like 'how the project will be and can perform/ how to establish the rule of law of the project/ how to create project

<sup>38</sup> In Turkish 'İmar Haklarının Toplaştırılması'

financing/how will be the project management' designed with people those affected from the project directly (Göksu<sup>39</sup>). In addition to contributions to fair rent sharing, this model brought 'authority sharing' issue to the agenda. Sharing authority with different stakeholders in this model was a step from 'top-down model' to 'governance'. Local administrations shared their authority with local public and other actors with the 'project democracy' implementation. This was an important development to change the inactive role of public in rent distribution process. In result, this model advocates that the value created after urban transformation process will be distributed according to a project which is decided by all actors such as public and private. Therefore, urban rent will be shared more equally and so turn mostly to public. On the other hand, this model does not make sure of sharing rent equitable because of this system depends on bargaining. Therefore, negotiation and bargaining processes of this instrument should be made carefully in favor of the public.

### **5.2.2. Assessing Choices for Resolving Agenda Items**

To reach the aim of more equitable rent sharing, there are two main subjects to decide on:

Firstly, which instrument for transferring rent to the public will be used in which rent creation situation? For example, selling construction rights to investors seems like the best way to prevent land speculation in plan change/ modification situation. For the reason that, the corruption is being done for high construction rights with various plan modifications. Therefore, buying construction rights at high amounts would not be easy as changing the plan. Interest groups would need to calculate their cost and benefits once more. If they prefer to build more, they had to pay and share the rent by this channel. On the other hand, consolidation of development rights instrument seems really useful for urban transformation processes. Since, dwellers of urban transformation areas do not have voice in decision making process. Thanks to this instrument, they will have right to speak for sharing created value. In addition to this, to avoid greedy investors in general Henry George's taxation advice is the best. Since, making rent focused investment and holding the land by this channel will not be

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<sup>39</sup> <http://dergi.mo.org.tr/dergiler/4/351/5061.pdf> accessed 14.07.2014



profitable as before. On the other hand in practice making such a matching is really difficult. Taking into consideration of land value tax have potential to interfere to the both improper rent creation and unfair distribution processes, it is assessed as an appropriate instrument in addition to current rent distribution solutions in Turkey. Furthermore, becoming Land Value Taxation is untested instrument in Turkey and having lots of international experiences became effective for choosing this tool to examine in detail.

The ideal form of taxation could be arranged according to benefit of the project for the public along with assessments of implementations by planning experts. If the project was found beneficial for public welfare, Land Value Taxation rate could be lower or taxation could be implied only for the projects which are not beneficial for public. At this point the problem is that, public welfare concept is changeable from person to person. This problem make nearly impossible to make an objective, ideology free assessment by experts. Therefore without any separation in tax rates, implying the same rate could make easier the practice except for special groups such as farmers or poor. In addition to this, preparing taxation zones could be a solution in order not to penalize vulnerable groups. These kinds of design details of taxation will be discussed in more detail in the following parts of the thesis.

### **5.3. Selected Policy Implementation Tool: LAND VALUE TAXATION**

In the light of research, under a new land policy approach which supports ‘transferring urban rent to the public’, a new implementation tool for Turkey ‘Land Value Taxation’ will be examined in detail.

#### **5.3.1. What is Land Value Tax?**

Land Value Taxation is an urban land and economy policy tool which can be used to support the transferring urban rent to the public. “This tool splits the standard property tax into its two components of land values and building values. The tax rate is increased on the land part of the property and decreased on the building (Speirs; 2010:2).” As explained by Speirs, imposing higher tax rate on land rather than improvements has

many benefits. “Land is effectively in fixed supply, so an increase in the tax rate on land value will raise revenue without distorting the incentives for owners to invest in and make use of their land (Dye and England;2010:2)”. This situation seems parallel with the current government policy in terms of supporting investment and job creation with this way. On the other hand, Dye and England stated that tax share on improvements and buildings on land discourage investments (2010:2).

In the following table, there is a comparison between traditional property tax<sup>40</sup> and proposed land value taxation. The revenue come from traditional system could be obtained by imposing different tax rates for land and improvements separately.

<b>Alternative Property Tax Rates Can Yield the Same Result</b>			
	<b>Land Tax Payment (land value= \$100,000)</b>	<b>Improvements Tax Payment (improvements value= \$300,000)</b>	<b>Total Tax Payment</b>
Traditional Property Tax (1% on both values)	\$1,000	\$3,000	\$4,000
Two-rate Property Tax (2.5% on land, 0.5% on improvements)	\$2,500	\$1,500	\$4,000
Pure Land Value Tax (4% on land value only)	\$4,000	0	\$4,000

**Figure 5.4. Revenue Obtained from Different Taxation Systems**

*Source:(Dye and England;2010:6)*

In the table above difference among traditional property tax, two-rate property tax and pure land value tax is showed. When we look at traditional property tax, we see that tax on improvements is higher than tax on land. When we look at two-rate property tax we see that tax on land is higher than building but there is no much difference. Lastly, when we examined pure land value tax, we observe that all tax burden is on land. In the following parts, the effect of this situation will be examined in detail.

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<sup>40</sup> Difference traditional property tax from Land Value Taxation is as follows:  
In traditional property tax a common tax rate is applied for both land and building.

### **5.3.2. Has the policy created a positive impact on developing areas? Benefits of Land Value Taxation**

“Apart from the moral argument that such a tax would return to society the value of land that society itself had created, it would have a number of other economic benefits.” According to Jones, thanks to land value taxation, people use land in more efficient way. As a result of landowners will pay the tax according to their land value, they prefer to use the land in its high and best use or they will sell it. Therefore, “It would end the wastefulness of derelict land and decaying buildings standing empty for years on end that blight neighborhoods. Furthermore, it would more or less end speculation on land, because it would become too costly (Jones; 2008:8)”.

In the report of Lincoln Institute of Land Policy, probable effects of land value taxation are grouped under several headings (Dye and England; 2010:7-12):

**Efficiency Advantages:** According to Dye and England, land tax is efficient as a consequence of making the economy more productive. When land value tax is compared with other taxes, it can be said that most taxes transfer resources from the private sector in order to support government activities. On the other side, this attempt causes increase in the price of taxed service so harms market choices. They claimed that a land value tax does not harm investment choices because amount of land is fixed. In addition to this, they claimed that land value taxation could raise same revenue with traditional property tax without discouraging investment. Because, property tax “discourages investment in new structures and maintenance of existing structures by reducing the return on such expenditures (Dye and England; 2010:8).”

**Burden on Landowners:** “Most taxes are shared among producers, consumers, and other affected parties (e.g., suppliers, employees) as the price and amount of the taxed good change in response to the tax.” Dye and England stated that land tax burden is falls on landowners as a result of amount of land is unchanging (2010:8).

**Speculation and the Timing of Development:** Dye and England pointed out that land value taxation prevent speculators from holding land for future to sell at a higher price. Therefore the tax encourages development of land.

**Sprawl and the Density of Development:** In addition to the economical benefits, land value tax has advantages in terms of urban planning. According to Dye and England, as

a result of lowering taxes on buildings, there will be more density construction. They claim that same residents would accommodate in smaller area. Furthermore, housing prices will decrease and people can more afford to consume (2010:11).

**Revenue Adequacy:** Dye and England pointed out that if land value tax is implicated, it will be two-rate tax instead of a pure land value tax. This means that improvements will subject to lower tax rate than the land itself. “In many cases the revenue stream from a pure land value tax would be an inadequate substitute for the revenues flowing from the traditional property tax.” They emphasized that it is difficult to meet fiscal expenditures without taxing improvements. Therefore, land value tax has to be in a form of two-rate tax system. They gave some examples such that “In Milwaukee, for example, all of the rents from land would have to be taxed away if its city government were to free buildings and other improvements from taxation and keep municipal spending at the same level. In Philadelphia, more than 80 percent of land rents would need to be collected by the city in order to maintain municipal revenues if improvements were exempted from taxation” (Dye and England; 2010:12). Therefore, differently from Henry George’s proposal, modified land value tax which advocates two-rate tax system should be practiced.

We learned that land value tax have lots of benefits like encouraging development and maintenance of existing structures, making economy productive, preventing urban sprawl and charging tax burdens on landowners.

After we examined comments of Dye and England, benefits of LVT will be explained with various exercises which were adapted from Speirs’s study ‘Land Value Taxation: An Underutilized Complement to Smart Growth Policies’.

### **5.3.3. Exercises**

In the exercises, it will be showed that how a land value tax prevent speculation, affect development type and affordable housing. In this part of the study a land value taxation implementation / simulation will be presented in order to explain better the effects of taxation. With explaining these effects, we will be touching on the subject of ‘Georgist Perspectives on City Planning’.

### 5.3.3.1. Example 1

The selected area which locates in Alaçatı/İzmir is thought as an example for land speculation issue.



**Figure 5.5 İzmir/Alaçatı District**

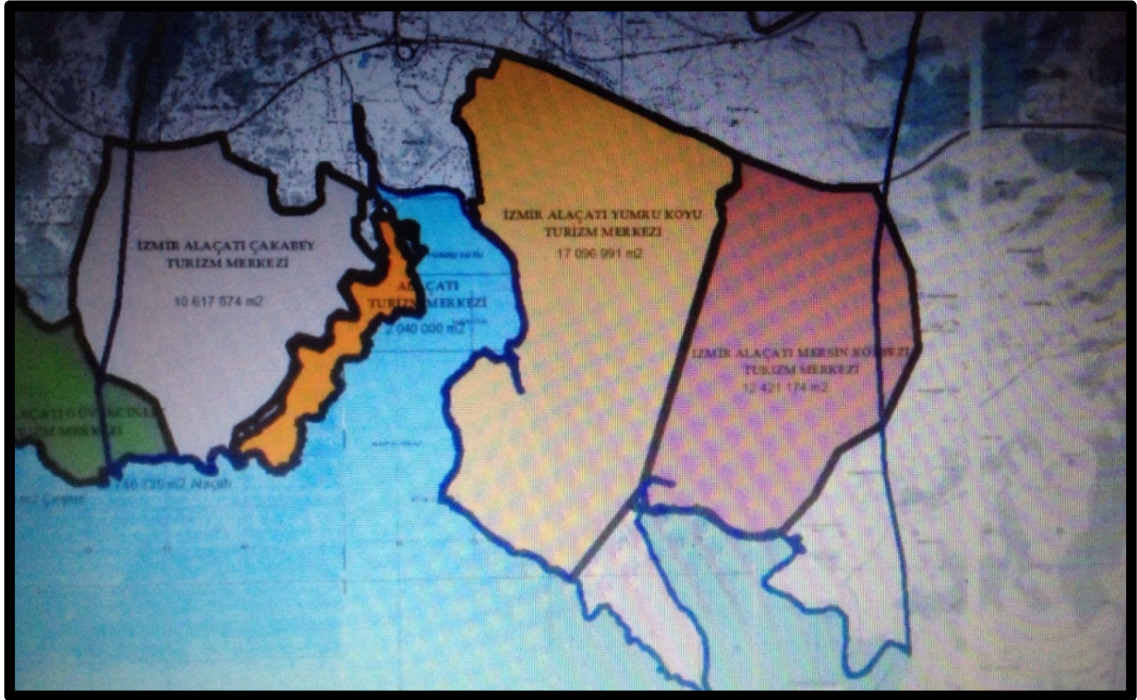
*Source :own design on Google Maps*

In İzmir/ Alaçatı district, there are agricultural lands. Recently, functional change has been done in the upper scale plans of this area. In the new plan, current agricultural area has been transformed into a Tourism Center. After this change, land prices in this area increased a lot even though 1000 (implementation plan<sup>41</sup>) or 5000 scaled plans have not been prepared yet.

Despite the fact that development rights of agricultural lands are too low for development in this area, there occurred an investment expectation. Therefore, high value trade of lands in the area takes place. In addition to this plan, there is another project, namely the ‘Alaçatı Port Project (luxury residential project)’ which also leads increase in land prices.

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<sup>41</sup> According to Law No 3194 : “Implementation Plan” is the plan which is drawn on approved base maps with cadastral drawings if available in accordance with the principles of the master plan, and contains in detail the building blocks of various zones, their density and order, roads and implementation phases to form the basis for land development implementation programmes and other information.  
[http://www.migm.gov.tr/en/Laws/Law3194\\_LandDevelopmentPlanningandControl\\_2010-12-31\\_EN\\_rev01.pdf](http://www.migm.gov.tr/en/Laws/Law3194_LandDevelopmentPlanningandControl_2010-12-31_EN_rev01.pdf) accessed 27.07.2014



**Figure 5.6 Upper Scale Plan (approved in 2011)**

*Source: Alaçati Belediyesi (photographed by Duygu Öcal before the Alaçati Municipality was closed)*



**Figure 5.7 Alaçati Port Master Plan**

*Source: <http://i242.photobucket.com/albums/ff109/medsmeds/ngr.jpg?t=1209758467>*

According to oral information obtained from around real estate agents and real estate appraisers, it has been learned that price range in this area was 20-30 TL/m<sup>2</sup> before the change in plan. According to interviews which were conducted with real estate appraisals, people usually demand high numbers and these high values which can be seen in the following table do not reflect the true and fair value.

Area(m <sup>2</sup> )	Land Use	Price (tl/m <sup>2</sup> )	Explanation
1.480.00	Agricultural	<u>109</u>	FAR <sup>42</sup> :0.05
21.140	Agricultural	<u>47</u>	FAR:0.05
20000	Agricultural	20	FAR:0.05
6180	Agricultural	<u>97</u>	FAR:0.05

**Figure 5.8 The fees quoted for land value**

*Source: Information was taken from real estate appraisers who work in this region and real estate agents*

In the next part, effect of LVT to development and rent allocation structure will be presented with graphs.

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<sup>42</sup> FAR (FLOOR AREA RATIO) refers to 'Emsal' or 'Kat Alanı Kat Sayısı (KAKS) in Turkish. According to Article 16 of 3030 Sayılı Kanun Kapsamı Dışında Kalan Belediyeler Tip İmar Yönetmeliği, its definition: "Yapının bütün katlardaki alanları toplamının parsel alanına oranından elde edilen sayıdır. Katlar alanı bodrum kat, asma kat, çekme ve çatı katı ve kapalı çıkımlar dahil kullanılabilen bütün katların ışıklıklar çıktıktan sonraki alanları toplamıdır. Açık çıkımlar, iç yüksekliği 1.80 m.yi aşmayan ve yalnızca tesisatın geçirildiği tesisat galerileri ve katları, ticari amacı olmayan ve yapının kendi ihtiyacı için otopark olarak kullanılan bölüm ve katlar, yangın merdivenleri, asansörler, kalorifer dairesi, kömürlük, sığınak, su deposu ve hidrofor bu alana katılmazlar. Kullanılabilen katlar deyiminden konut, işyeri, eğlenme ve dinlenme yerleri gibi oturmaya, çalışmaya, eğlenmeye ve dinlenmeye ayrılmak üzere yapılan bölümler ile bunlara hizmet veren depo ve benzeri alanlar anlaşılır." <http://imarkanunu.uzerine.com/index.jsp?objid=1451> accessed 27.07.2014

### ***How an LVT implementation directs development?***

Now, we suppose that, we have a 6000 m<sup>2</sup> empty lot in Alaçatı district. The assessed value on this lot is (6000\*25) 150.000 TL. We suppose that property tax rate per year on this lot is <sup>43</sup> 1.8 %. Therefore, property tax is 2700TL. This number means 225 TL a month. With this low tax price, landowner can hold this hold for 15-20 years because tax does not create monetary burden on land owner. As Speirs stated that “..There is no financial incentive to sell. If this lot is held by a speculator that is very likely what will happen to it. (Speirs;2010: 20)”.

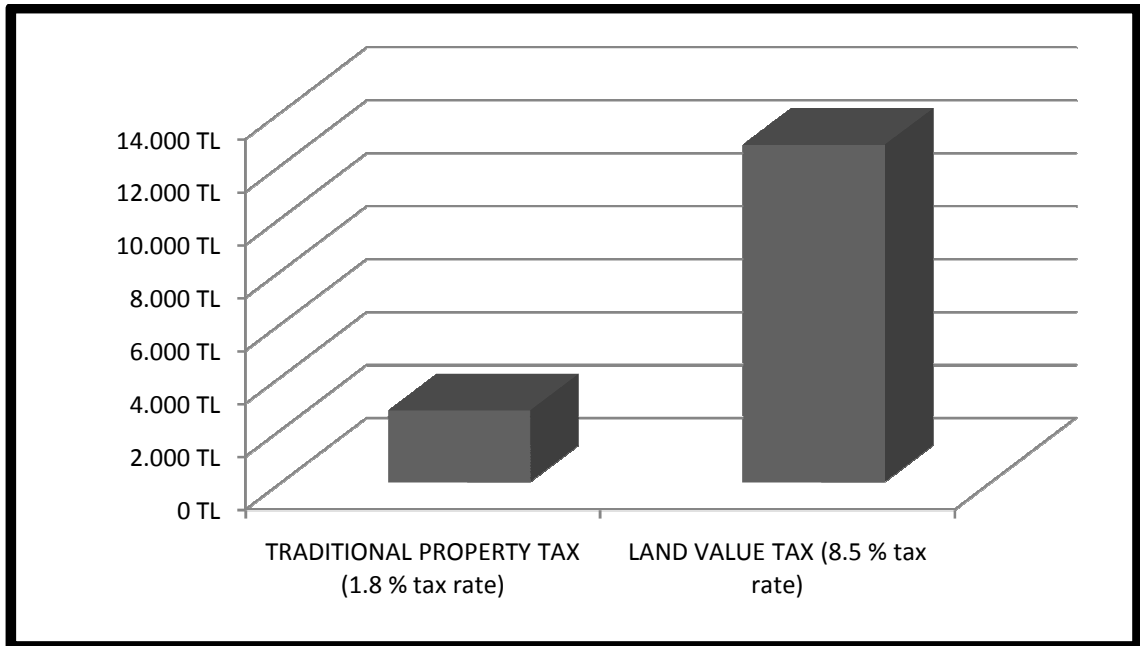
The problem here is that as we often emphasize in the thesis: “unfortunately, the only person benefiting from this arrangement is the lot owner. Neither the neighborhood nor community receives any benefits. For the neighborhood and community to benefit, the lot owner would need to develop the lot or sell to someone who would develop it (Speirs;2010: 21) ”.

Now we will try to understand that ‘If municipality enacts a land value tax, what would happen to the taxes on this area?’. We suppose that municipality will imply land value tax at a rate 8.5%. At that tax rate, the amount land owner will have to pay becomes 12750 TL a year. This amount equals to nearly %8 of the assessment value. At this point Speirs take attention the point that “with this yearly tax bill this property owner will not want to hold on to this land for 15 or 20 years. The higher yearly tax bill not only increases the holding cost but increases the risk, as long as it is undeveloped, of this lot being a profitable investment (Speirs;2010:21,22)”.

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<sup>43</sup> <http://emlakkulisi.com/emlak-vergisi-nasil-hesaplanir-2014/246432> accessed 30.07.2014





**Figure 5.9 Tax burden with traditional property tax and LVT**

*Source: own design*

### 5.3.3.2. Example 2

In addition to discouraging landowners to make speculative investments, Land Value Taxation has other advantages in terms of Urban Planning. Speirs stated that Land Value Taxation support owners to build densely (2010:23). The reason behind it that developers prefer to build with higher density in order to make more profit. He indicates that the tax encourages landowners to construct more buildings on smaller lots. Speirs explained the benefits of building densely in relation to urban planning. According to him as a result of Land Value Taxation, land owners prefer to infill areas instead of holding them and they prefer revitalize of old buildings. Additionally, “Property owners, responding to the financial inducement to reduce the land-to-building ratio, would build more intensively on vacant and underutilized sites. The cumulative effect over time and space would be to increase property values, and thus the tax base, where that is most needed” (2010:23). At this point, urban planners should be careful about generalizations such as density settlement is always good. There could be some places for which density settlement can not be assessed as beneficial. Therefore, impacts of land value tax could be changed from place to place. Moreover, related to construct

more on smaller lots, planners again should be careful to stick to planning decisions in terms of floor area ratio.

In the following graph, there will be presented answer to the question of ‘how a land value tax creates compactness and density’. In this case, we continue our first scenario with various additions. We suppose that land owner will build a house on his land and we suppose that cost of building is 900.000TL. Now we will compare Land Value Tax and Traditional Property Tax in this case. Since under LVT tax burden will be only on land<sup>44</sup>, in land value taxation model there won’t be any change in tax amount for the building and land. However, in traditional property tax where the tax burden is on both land and buildings there will be an increase in tax amount.

From the first example we know that the tax ratio for the land is %8.5 in LVT system. Therefore, land value tax is 12.750 TL. Also we know that the tax rate %1.8 in traditional property tax system. In this case, the tax for the building and land will be equal to the 18.900TL.

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<sup>44</sup> Land Value Taxation can be taken only from land or both from land and improvements on it. In this example we assume that it is taken only from land.

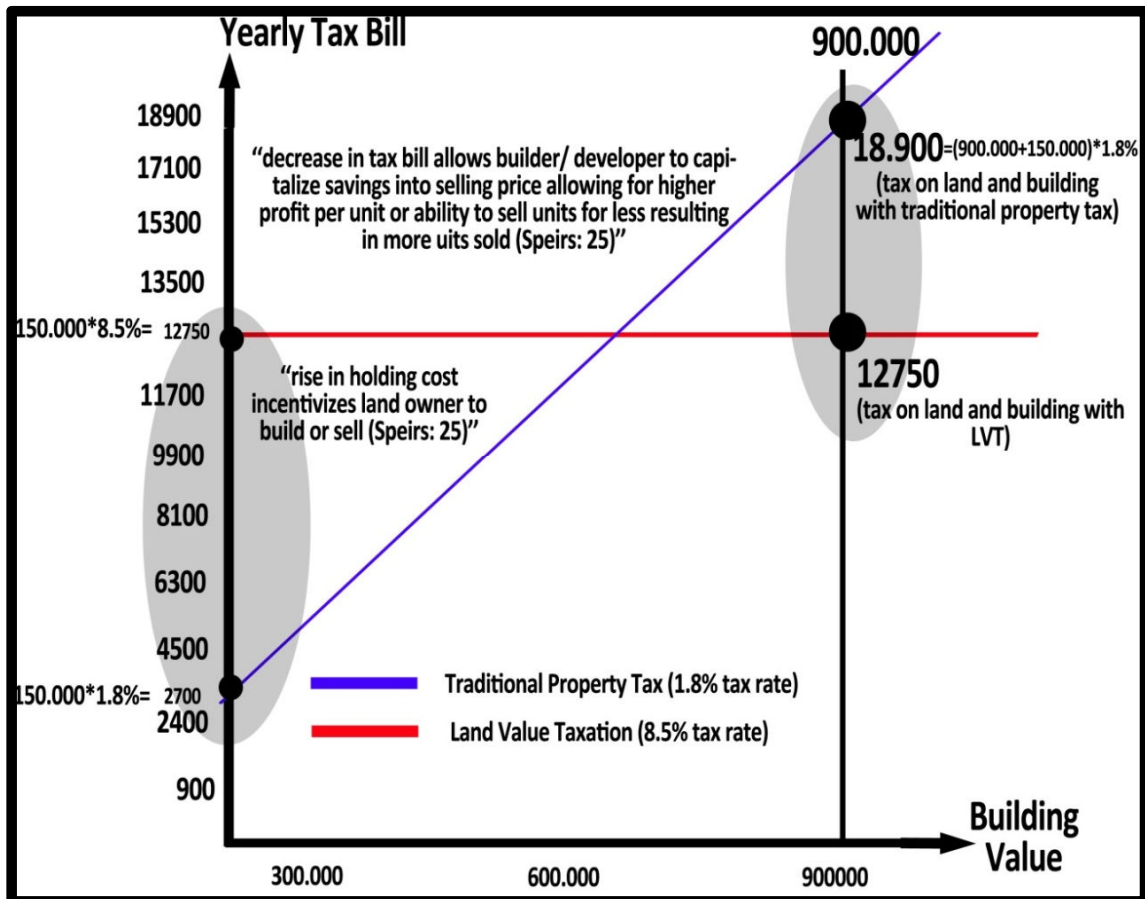


Figure 5.10 Effect of LVT to tax burden

Source: own design by inspired from Speirs

From the graph we understand that if land owner holds the land the tax burden will increase for him but if he prefers to build on it, the tax bill will decrease. Speirs interpreted this situation is similar to “standard tax abatement given to developers for certain projects” (2010:25). Therefore, there occurs an incentive to develop the land and decrease lot size. Furthermore, decrease in tax bill will decrease housing prices and there will be more housing consumption. In this case, taxation decisions must be taken carefully against the danger of housing boom with taking into consideration demand supply balance.

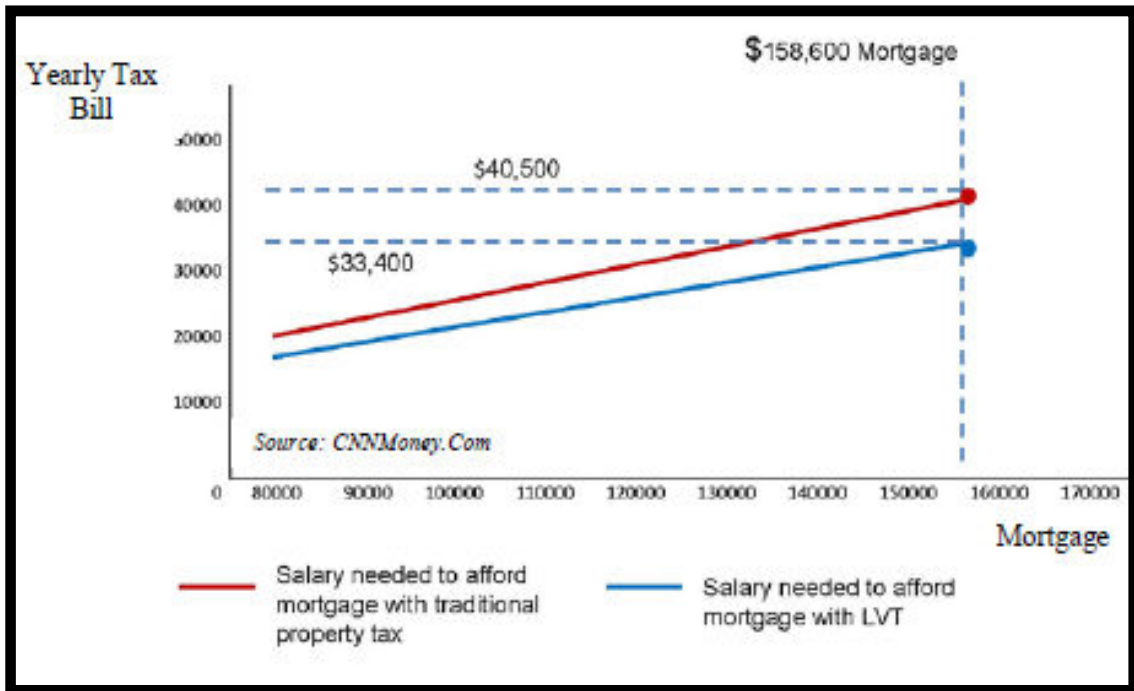
### 5.3.3.3. Example 3

According to Speirs, land value tax contributes to affordable housing with two direct ways. First one is with decreasing housing prices which is the result of becoming “land is fixed in supply”. He focused on developers buy the land cheaper in a competitive economy and sell housing less with maintaining their same profit. The second one is with decreasing “mortgage threshold”. He stated that as a result of LVT decrease property tax, monthly mortgage will decrease which has positive correlation with property taxes. Speirs specifies that (by giving reference to the Center for the Study of Economics): “as an example, in 2007 the Center for the Study of Economics did a study on the effect land value taxation has had on the city of Titusville, Pennsylvania, which adopted LVT in 1990. The study found that with an LVT 72% of residential properties now have smaller tax bills than they would have with a traditional property tax<sup>45</sup>”.

Now we will try to understand ‘how Land Value Taxation encourages affordable housing’ with another exercise which is taken from directly the Speirs study. Speirs supposes that a person is looking to 158.000\$ (8.000 for land, 150.000 for house) mortgage. In this exercise we try to find the yearly salary to compensate necessary mortgage which includes required tax and insurance payments (Speirs;2010:27). There will be presented that difference between traditional property tax and land value tax.

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<sup>45</sup>See <http://www.urbantools.org/research-and-studies/recent-implementation-studies-2007-2008> accessed 30.07.2014



**Figure 5.11 Salary needed to afford mortgage with traditional property tax and LVT**

*Source: Speirs:27*

We see from graph, the necessary salary is \$40.500 with a traditional property tax. On the other hand, this amount decreases to \$33.400 with Land Value Taxation. Speirs pointed out that this difference is important. Land value taxation helps to pay less mortgage bill. In addition to affordable housing, Speirs emphasized that quality is also important. He stated that “One of the problems of the current property tax structure is it rewards absentee landlords who allow their rental properties to fall into a deteriorated condition. Financially speaking, this makes ‘slum housing’ or ‘slum land lording’ a highly profitable form of real estate investment”. He thinks that Land Value Taxation can contribute to solution of this problem. In the case of traditional property tax, tax bill increases when landlord makes any improvements. This situation causes landowners allow their building to depreciate as a result of their tax bill decreases (2010:28, 29).

#### **5.3.4. How LVT Supports the Objectives of Transferring Urban Rent to the Public**

Support of Land Value Taxation for the transferring urban rent is mostly related ‘where the collected taxes will be used’. In this part of the study, there will be done some recommendations about how collected taxes should be transferred to the public? One of the important proposals in the light of research is that, taxation income should be used to create employment to provide income smoothing of poor people in cities. So, especially in urban transformation areas, high rent taxes should be taken and then, this money should be transferred to poor people not by directly but by creating some employment areas and giving them to education to be part of that job.

Another proposal is that, taxes which are collected as a result of big rent projects should be directly transferred to a fund to establish public spaces. Big urban parks which include some social/educational buildings should be created at the same time with these speculative projects in order to show creating equality of opportunity is possible rather than income equality. With these kinds of projects while capital groups gain profit from this development, local people also benefit from that rent as a part of producer of it. By reason of providing income equality is too difficult in a neoliberal economy, one of the best ways to transfer urban rent to public is creating ‘urban public spaces’ with rent taxes.

There is another proposal which is about welfare state understanding of Turkey. Urban rents could be used for basic rights of people such as social insurance, unemployment insurance, education.. There should be created a fund and then taxes which were collected should be transferred to that fund.

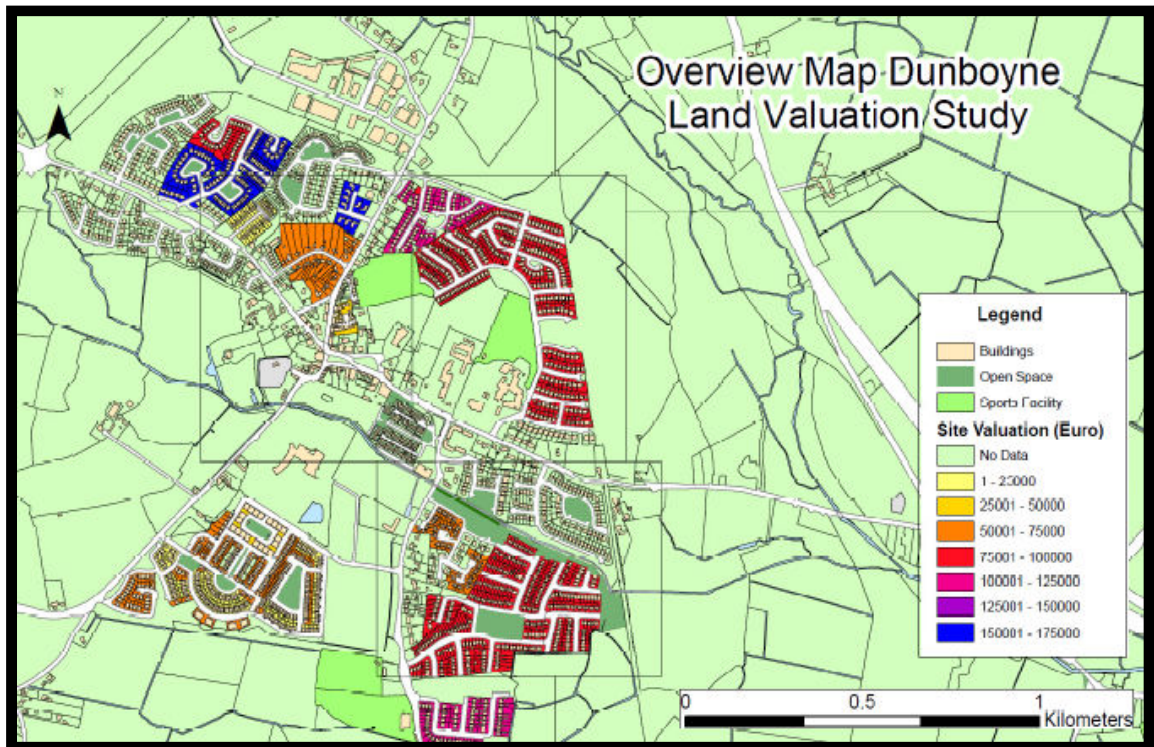
The main aim of all proposals is transferring value which is produced publicly to public again. Moreover, collected rent taxes should advocate economical development at national level. We expect that income inequality will decrease because that unearned income will be not permitted. In summary, urban rent taxation is a big opportunity which could be evaluated for public interest thanks to its revenue earning potential.

### 5.3.5. Implementation of a Land Value Tax

Implementation of Land Value Taxation has two dimensions. These are political and practical. Political dimension of implementation is related mostly legal side of the issue. There should be prepared a good designed legislation and created incentives for various stakeholders which will be discussed later. When we think practical side, in order to implement Land Value Taxation, there should be land use database of the country. Wightman stated that in order to value the land and assess the tax rate, there should be known the quantity of different land uses such as residential and agricultural (2010:10). Turkey has a land use database. Especially in big cities such as İstanbul and İzmir, these types of databases are being used for various city management systems. This handy database could be an advantage for Turkish experience. Beside these calculations, data collection and mapping, local administrations need to have a good designed GIS (Geographic Information System<sup>46</sup>) Project to determine and follow taxes. In Ireland, a LVT project was implemented using GIS technology. The aim of the project prepared by The Foundation for the Economics of Sustainability & Dublin Institute of Technology was described as “to inform and stimulate a debate on the information implementation issues of a property tax based on Land Value for Ireland”(Monaghan:2010). In the scope of the project site valuation maps were prepared as can be seen in the following figure. These kinds of GIS projects are important in order to gather qualitative data and spatial data together. With these maps, local governments and landowners can make any taxation inquiry online. Following the taxes, modifying and updating owner information, real estate valuations can become easier.

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<sup>46</sup> “A geographic information system (GIS) is a computer system for capturing, storing, checking, and displaying data related to positions on Earth’s surface. GIS can show many different kinds of data on one map. This enables people to more easily see, analyze, and understand patterns and relationships.”  
[http://education.nationalgeographic.com/education/encyclopedia/geographic-information-system-gis/?ar\\_a=1](http://education.nationalgeographic.com/education/encyclopedia/geographic-information-system-gis/?ar_a=1) accessed 29.07.2014



**Figure 5.12 Site Valuation Map**

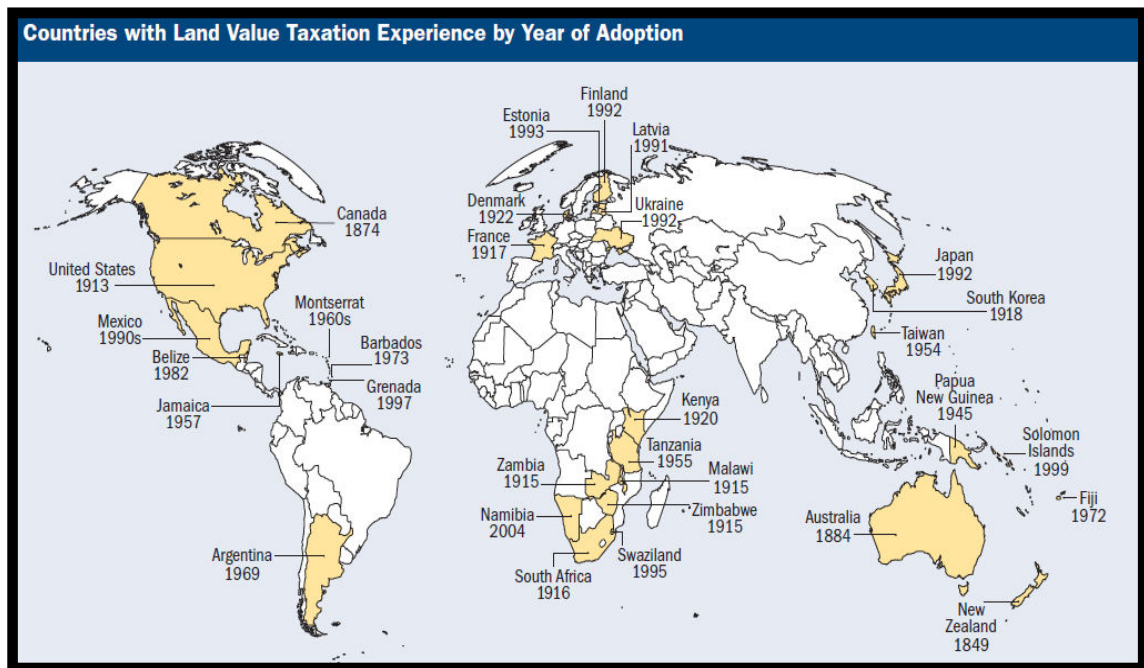
*Source: Monaghan;2010:12*

The second required information is ‘who is the owner of which parcel’. This qualitative data should be collected and merged with geographical data. Again, big cities of Turkey have such databases. The importance of having the data especially for big cities is emphasized because the rent distribution problem is mostly observed in these cities.

#### **5.4. Existing Implementations in Other Countries**

It is known that, land value taxation is not a utopian proposal. There are lots of countries which have implemented land value taxation successfully. In this part of the study, we will examine countries which experienced Land Value Taxation.





**Figure 5.13 Countries with Land Value Taxation Experience**

*Source: Dye and England; 2010: 13*

#### **5.4.1. U.S.-Pennsylvania**

USA experienced Land Value Taxation with Pennsylvania's initiative. In 1913, Pittsburg and Scranton started to implement different tax rates for land and improvements. As of 2008, there are 16 Pennsylvania cities which implement Land Value Taxation (Dye and England; 2010: 13). In 1993, some school districts were also included into Land Value Taxation system. It is thought provoking that ratios are too much changeable from city to another city. "For instance, the small city of Aliquippa, which led the way towards the two-rate option for school districts, taxes land 16 times more heavily than buildings. Pittsburgh's tax rate on land is nearly six times the rate of buildings, the Titusville ratio is nearly 9 to 1, while Harrisburg's ratio which has been 3 to 1 will soon change to 4 to 1 (Hartzok<sup>47</sup>)". This difference seems rational and it probably changes according to cities which is more susceptible to speculation. When we think of Turkey, similar implementation could be also in cities such as İstanbul.

<sup>47</sup> <http://www.earthrights.net/docs/success.html> accessed 02.07.2014

Harrisburg which is one of the Pennsylvania cities which operates a split-rate tax system experienced an improvement in the local economy after taxation. With the tax change, “empty sites and buildings have been re-developed, with the number of vacant sites by 2004 down by 85 per cent. The city authorities have issued over 32,000 building permits, representing nearly \$4 billion of new investment – nearly 2,000 were issued in 2004 alone. Over 5,000 housing units have been newly constructed or rehabilitated, and the number of businesses has jumped from 1,908 to 8,864, with unemployment down by 19 per cent. Furthermore, crime has fallen by 58 per cent, and the number of fires has been reduced by 76 per cent, which the authorities say is due to more employment opportunities, and the elimination of derelict sites, making vandalism less likely. (Jones: 9)”. Jones stated that Land Value Tax triggered economic activities and public revenues increased.

#### **5.4.2. Denmark**

In Denmark a tax on unearned income was implemented in 1908 as a result of a railroad construction. Land Value Taxation came to the agenda in 1922. “In 1922 a bill on land value taxation to the state was passed. Four years later a similar bill on municipal land value was passed. In 1933 a bill on taxation of the unearned increment in land was carried. Through these different forms of taxation it was estimated that about half of the land rent created by society was collected for the people who created it (Kristensen<sup>48</sup>)”.

Today, public administrations collect a *grundskyld* (ground rent) averaging 2.4% of assessed value, and a 1% property tax at the national level. It is mentioned that LVT was effective in the past more than today and “in 1960’s, Denmark used a land value increment tax, and offered a national farm-lease program”<sup>49</sup>. According to another source, Denmark had a Georgistic party at that times (1957-60)<sup>50</sup> and this could be the reason of becoming more influential in the past. This Georgist party’s economic policy was “to collect the economic rent of land and abolish all taxes on labour and capital<sup>51</sup>”. Vickers stated that in his Danish Tax Notes: “the level of Denmark’s property taxes is

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<sup>48</sup> <http://www.grundskyld.dk/2-assessment.html> accessed 02.07.2014

<sup>49</sup> <http://www.henrygeorge.org/rem4.htm> accessed 02.07.2014

<sup>50</sup> <http://www.grundskyld.dk/2-assessment.html> accessed 02.07.2014

<sup>51</sup> <http://www.glasswings.com.au/geonomics/denmark.html> accessed 30.07.2014

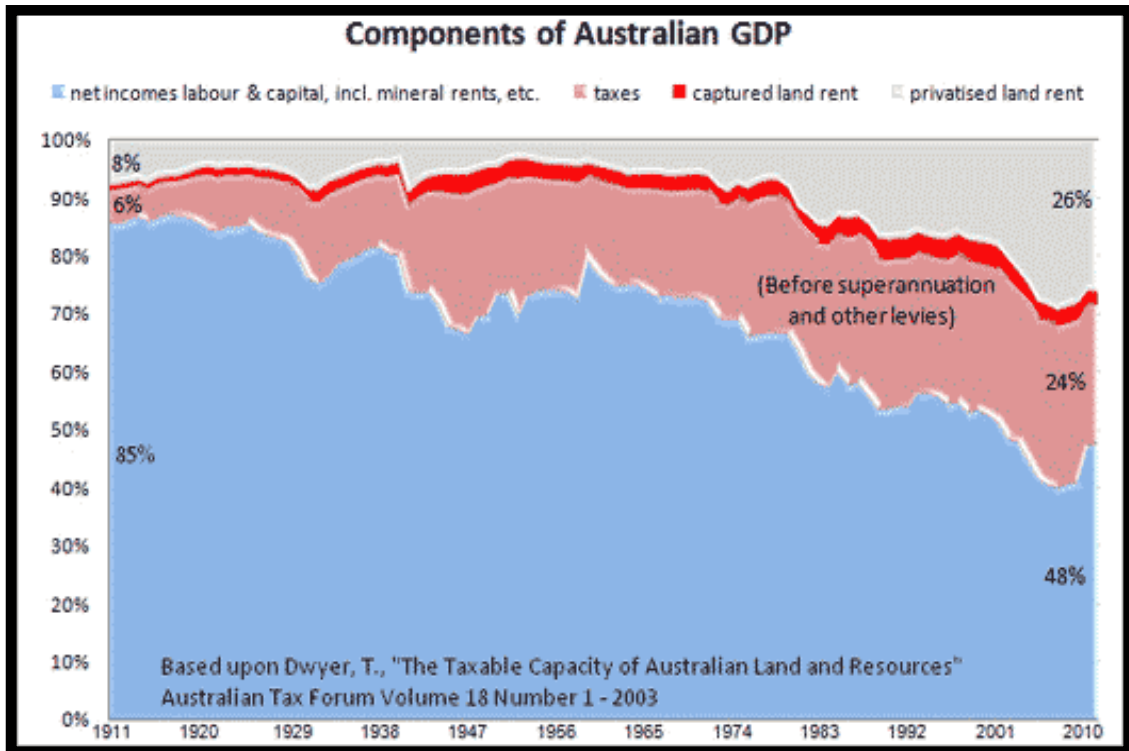
not very high compared to that in Sweden or in UK. However its property tax system is among the most mature in the world and the cost of its administration possibly the lowest, expressed as a proportion of revenue raised from it (a quarter of that in UK in 1995/6). LVT (grundskyld) appears not to cause any increase in costs of that system, even though the assessed value is 100% of market value (unlike Sweden, which uses 75% as a device to reduce the precision needed in valuations). Denmark has a tax on 'gross' property values (i.e. including building value) as well as LVT. The property tax revenue goes to central government, whereas LVT goes to local authorities'' (Vickers: 1).

### **5.4.3. Australia**

Australia is a pioneer example because state uses LVT to finance its budget. There are some different LVT implementations in Australia. For instance, even though in some areas unimproved land is taxed, in some areas improved land is taxed. Rules are changeable according to the state or municipality. Another difference is that, "the federal government enacted a land value tax in 1910 to finance an old-age pension program and to break up large tracts of idle land". In 1952 implementation of this national land tax was stopped in part because "it failed to break up large estates and in part to provide additional tax base to local governments across Australia" (Dye and England; 2010:16). When land value data is observed from 1911 to 1999, it can be seen that "privately collected land rent to be as much as 26% of Australian GDP, more than the 24% of GDP currently collected in taxes, of which only a very small portion is publicly collected land rent"<sup>52</sup>. This situation indicates that, even though there is taxation implementation, tax amounts which is taken by public are little when we compare with the actual rent. It can be observed from the graph that there are huge difference between captured land rent and privatized land rent.

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<sup>52</sup> <http://www.henrygeorge.org/rem42.htm> accessed 02.07.2014



**Figure 5.14 Share of Land Value Taxation in Australian GDP**

Source: <http://www.henrygeorge.org/rem42.htm>

#### 5.4.4. China and Hong Kong

China and Hong Kong are successful countries which implement Land Value Taxation. More than %35 of their tax revenue comes from urban rent tax. Therefore, other tax rates are very low and generally their budget has a surplus. Although these two states have small area, they have large population and urbanization structure. As a result of scarcity of land, significant portion of land is owned by state. So, investors rent lands for long periods. Land rent revenues which are obtained from rental constitutes a large part of public income (Ökmen and Yurtsever; 2010:67).

#### **5.4.5. Hawaii**

Hawaii is a bad example for Land Value Taxation which has lessons to be learned. Hawaii has started to implement land value tax in 1963. The state hoped that Land Value Taxation will trigger real estate development and tourism. As a result of various reasons, there was a tourism explosion in Honolulu during the 1960-70s. As a result of the boom, Waikiki Beach faced with extensive construction of high density projects. Joni Mitchell described this transformation such that “They paved paradise and put up a parking lot...” (Dye and England; 2010:14). Dye and England stated that even though inadequate urban planning and bad zoning decisions were the real reason behind the situation, local officials and editorial writers saw land value taxation as responsible. Therefore, Land Value Taxation Policy was repealed in 1977(2011:14-15).



**Figure 5.15 Waikiki Beach, Honolulu, Hawaii**

Source:Dye and England;2011:15

#### **5.4.6. Assessment of International Examples**

After we examined the experiences of Land Value Taxation around the world, we conclude that this is not a utopian objective. There are several implementations for decades and also today there are countries which use Land Value Taxation. All these past experiences make it possible to make an evaluation and statistical analysis for before and after Land Value Taxation.

When we examined the examples, we found that some outcomes were in line with conclusions discussed in theory. As a matter of fact, we saw that land value taxation may improve government finances and provide compact development..

#### **5.5. Land Value Tax Proposal for Turkey**

Before the proposal we will discuss policy questions which will give a shape to the policy tool ‘Land Value Taxation’.

##### **5.5.1. Policy Questions**

The questions that we have to answer to design Land Value Taxation are determined in the report of HABİTAT (Walters; 2011:32-33-34). Walters grouped these questions under several headings as in the following tables:

<b>Defining the base for the LPT<sup>53</sup></b>
“What should be included in the base? It can include land only, land and immovable improvements, just the improvements, or different combinations of land and improvements for different types of land use.”
“How should value be determined, and how often should it be updated? As noted the LPT can be based on the market value of the real estate, proxies for market value or selected physical and locational attributes. ”
“Who will owe the tax? Part of defining the base includes determining who will owe

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<sup>53</sup> Land and Property Tax

the LPT. Will it be assigned to the owners of land or those who actually use the land? ”
“Should these decisions regarding general approach and incidence be uniform throughout a country or should they vary within a country depending on local conditions such as the quality of real estate markets or the nature of recognized property rights? ”
“Which types of property or ownership classes should be exempted from the LPT, if any, and why? One of the issues confronting every jurisdiction implementing an LPT is exemptions. ” For example, it is common, though not necessary, to exempt government-owned property. Temporary exemptions have also been granted in some cases because of natural disasters.
“Which level of government and which agency should determine which properties are exempt? ”

<b>Setting the tax rate</b>
“Should all property be taxed at the same rate? If some property or some property owners are exempted from the LPT, not all property will be taxed at the same rate. But beyond exemptions, should rural farm land and urban residences be taxed at the same rate? Should businesses and households be taxed the same? Should poor households and better off households face the same tax rate? ”
“Which level of government and which agency should set the tax rate? Setting the rate at the national or regional level assures uniformity and avoids tax competition. Allowing local governments to set the rate empowers local officials and fosters local autonomy. In some cases the national or provincial government establishes a range for the rate, and the local governments are allowed to determine the final rate within that range. ”

<b>Coverage</b>
“How will information be shared between agencies controlling land ownership and occupancy records, construction records and tax records? In many instances, there is very poor communication and cooperation between these agencies. But each controls some of the information required to manage an accurate cadastre and other land records. Pooling of all information related to land and land use is an important step in achieving

high coverage ratios. ”
“Will it be necessary to change other laws in order to assure that the required sharing takes place? ”
“Will one agency be responsible for “discovering” new property? Can this responsibility be shared? ”
“Who will provide the technical and financial resources to establish and maintain accurate land and property records? The assistance of donor agencies may prove very helpful in initiating an up-to-date cadastre, but maintaining the cadastre over time will require resources. ”

<b>Valuation</b>
“What staff skills and training will be required in order to maintain values at legally required levels? ”
“Which level of government and which agency should be responsible for maintaining accurate taxable values? ”
“Who will provide the technical and financial resources to establish and maintain acceptable valuation practices? ”
“Will valuation practices be monitored and evaluated regularly to assure fairness and accuracy? If so, by whom? ”

<b>Collection</b>
“Which agency will be responsible for collecting the LPT? ”
“How will tax bills be distributed? ”
“Where and how will taxes be collected? This is an important point because it affects the compliance costs for taxpayers. If taxpayers must travel some distance to a central tax office to pay their LPT, compliance will be lower than if paying the tax is more convenient. ”
“What process will be used to handle appeals? ”
“What sanctions will be used in cases of nonpayment of taxes? ”
“Will there be oversight by other agencies or other levels of government? ”



### 5.5.2. Land Value Taxation for Turkey

In this part of the study a proposal for Turkey will be developed using ‘Land Value Tax for Scotland (Wightman; 19)’. Furthermore, the proposal will try to answer above questions as much as possible.

\*All land in Turkey will be subject to ‘Land Value Taxation’ except for lands of specific classes

\*Rates will be determined at the discretion of public institutions.

\*A land use database will be developed in order to have information on all use of land in Turkey. All local municipalities would be able to access to this database in order to register changes.

\*The implementation of land value tax will be done by municipalities.

\*Land values should be determined according to current market values and it should be updated regularly.

\*Common public places such as open spaces, public transportation infrastructures and open water areas will be exempt from Land Value Taxation.

\*Land owners older than 60 have right to roll up their Land Value Tax liabilities. These taxes can be paid from the earnings of sale of their property.

### 5.5.3. Exemptions for Specific Classes

During Land Value Taxation Implementation, there should be special regulations for vulnerable groups such as the poor and farmers.

\***Farmland:** According to the report of HABITAT, farmers are one of the special groups for taxation implementation. One of the solutions to decrease tax burden on farmers is to adopt a lower tax rate. There is another proposal which offers to value agricultural land according to its current use instead of potential for development. “Thailand, for example, convenes a panel of agricultural experts to evaluate the typical agricultural productivity of various agricultural land categories in different parts of the country. Valuation is then based on this assessment of farm productivity. The result is

that the final tax burden on agricultural land is generally much lower than on other land valued with market value concepts (Walters;2011:103)''.

In addition to farmers, there could be some exemptions for people who engaged in farming in the city such as market gardening<sup>54</sup>.

**\*The Poor:** “There are often two motivations for granting LPT relief to low income households. First, even if taxed, the revenue collected from the poor may not exceed the cost of collecting the tax. Second, in countries where significant proportions of the population live in extreme poverty, it may seem unfair and unreasonable to add to their burdens through the tax system (Walters; 2011:103).” One of the suggestions for poor people is that poor people pay the taxes but then they have right to apply for a rebate. There is also another different discount system for granting tax relief. Target groups of this system are pensioners, veterans, and the disabled. Decision of granting criteria will be made by local governments (Walters; 2011:104).

#### **5.5.4. Policy Incentives to Encourage Adoption of LVT**

Edward H. Clarke prepared a study about “how you design ‘financial laws’ that act as a complement to LVT and, more importantly, force, or strongly encourage, the adoption of LVT as a source of financing public services”. Clarke pointed out ‘effective coordination’ and ‘incentive compatible’ issues. He stated that “we can design a set of incentive compatible expenditure arrangements that motivate the districts to return, to the extent appropriate, to the land tax (or rent) as a final source of revenue”. He put an emphasis on: “No one is going to seriously move forward on LVT when people think they can get what they want largely for free. We need to live with that realization. However, we often have episodic periods of reform when broad, if discrete, administrative measures might be undertaken in conjunction with an eye towards instituting what amounts to benefit taxation ( Clarke<sup>55</sup>).”

“Incentive compatibility is important in interactions in which at least one participant does not know perfectly what another participant knows or does. Problems may arise when the participant with more information has an incentive to use that information for

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<sup>54</sup> In Turkish ‘bostancılık’

<sup>55</sup> [http://www.wealthandwant.com/docs/Clarke\\_Geoism.html](http://www.wealthandwant.com/docs/Clarke_Geoism.html) accessed 10.07.2014

personal benefit at the expense of others<sup>56</sup>”. Turkey now has an experience similar to this description. Since, there is an informal rent distribution among various interest groups, these groups have an incentive to use their power/ authority for their personal benefits at the expense of public. Land Value Taxation proposal intervenes to this de facto rent distribution with a formal taxation system. As a result of benefits of different groups are changeable with this taxation system, there should be found an equilibrium point. With various incentives, we can try to maximize different stake holders’ willingness to pay for a land value tax. Therefore, the proposal is tried to be designed with taking into consideration ‘who wants Land Value Taxation and why’.

### ***What incentives do taxpayers have to pay the tax?***

According to report of HABITAT, tax payers need to be informed about calculation of taxes. They should know that taxes are being collected in a fair way (2011:6). Furthermore, “Taxpayers should be able to see the connection between the taxes they pay and the services they receive from government (Walters; 2011:6)”. In the same report, ‘building public support’ is mentioned with public meetings, advertisements, meeting with community groups and media.

It should be explained to people that “the proposal here is not to increase taxes but to shift and reduce taxation. Unless you own a valuable vacant lot, the proposal presented below would most likely reduce your total tax bill, since if fully implemented it abolishes taxes on your earnings and spending, and it also eliminates the portion of real property taxes that falls on buildings and other improvements (Foldvary;2006:2)”.

Jones made a contribution to incentive issue in terms of capitalist taxpayers. He underlined investing on other activities rather than land with saying that: “The point is that even capitalists would gain from a land value tax – even big landowners if they sold their land and invested the proceeds in other productive activities. The only exception would be those engaged in land speculation (Jones; 2008:35).”

### ***What incentives does government have to enact land value taxation?***

We know that Land Value Taxation encourages development instead of holding land. This is especially relevant for Turkey where construction sector plays an important role.

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<sup>56</sup><http://www.britannica.com/EBchecked/topic/1981666/incentive-compatibility> accessed 19.07.2014

Vitality of construction sector creates employment and this issue is important for future of government. Jones explained the relation between the taxation and mobilization of the construction industry in that “because the more that land is taxed the more this provides an incentive to invest capital on the land in the form of buildings and other economic activities (2008:9).” On the other side, governments are interested in welfare of public as a result of worry of sustaining political power. Therefore, benefits of Land Value Taxation such as providing revenue for local governments and decreases in housing prices could be one each incentive to enact Land Value Taxation.

#### **5.5.5. A New Division of Labour to Encourage Adoption of LVT**

In the thesis, there has been made a proposal in order to prevent cities from improper rent creation interventions and provide fair share of urban rent. Now it has to be thought about ‘how to include all related actors to the processes’. In order to follow the ‘transferring urban rent to the public’ proposal, adoption of ‘governance’ concept based on a new division of labor among stakeholders can be thought as helping hand.

Governance will affect the implementation of our proposal and anticipate its results. With governance understanding which advocates meeting all the actors’ expectations and ideas on the same ground, there could be more fair rent distribution processes. Moreover, governance implies to share responsibilities with a society in different ways such as project democracy. Accordingly, city governing will change into active, accountable and transparent process. Therefore, the problems encountered will reduce and timely provided public support will contribute to legitimacy of government’s acts.

## CHAPTER VI

### 6. CONCLUSION

#### *Why is the current policy not working? & Why is it necessary to find an alternative?*

"Take now... some hard-headed business man, who has no theories, but knows how to make money. Say to him: "Here is a little village; in ten years it will be a great city-in ten years the railroad will have taken the place of the stage coach, the electric light of the candle; it will abound with all the machinery and improvements that so enormously multiply the effective power of labor. Will in ten years, interest be any higher?" He will tell you, "No!" Will the wages of the common labor be any higher...?" He will tell you, "No the wages of common labor will not be any higher..." "What, then, will be higher?" "Rent, the value of land. Go, get yourself a piece of ground, and hold possession." And if, under such circumstances, you take his advice, you need do nothing more. You may sit down and smoke your pipe; you may lie around like the lazzaroni of Naples or the leperos of Mexico; you may go up in a balloon or down a hole in the ground; and without doing one stroke of work, without adding one iota of wealth to the community, in ten years you will be rich! In the new city you may have a luxurious mansion, but among its public buildings will be an almshouse (George; 1935:293-294)."

This little story summarizes the unchanged view of people for years on unearned rent income. As Henry George stated above, still today people prefer to invest their money on land in order to maximize profits through land speculation. Nobody is bothered by the fact that they gain too much without any effort. This can be seen as efficient when is thought individually but in fact it is not efficient in terms of total production/GDP of a country. Foldwary explained this case as in the following: "with a lower price of land, funds that now go to buy land would instead go to build more capital goods, hire more

labor, or provide better training (2006:8)”. To the extent that people prefer to invest their money in land instead of production, unemployment and income inequality will increase.

Earning money without working thanks to urban rent is a big incentive problem. In order to avoid this incentive problem, there need to be a good designed taxation program. This taxation program should prevent people from investing in urban land instead of productive areas. Here, governments have to find a point which provides balance between efficiency and equality. It is known that big capital groups would not be happy with these kinds of regulations. On the other hand it is the state’s mission to distribute urban development equally because, urban rent occurs as a result of urban development. Moreover, urban development is product of all people who live in that city. Today, only certain groups are taking advantage of this rent, lots of people are struggling with poverty in cities. Therefore, the main discussion of the thesis is to distribute urban rent more fairly.

In the context of 'transferring urban rent to the public', Land Value Taxation is proposed as an appropriate tool. It should be mentioned that, Land Value Taxation may be successful when it is used with current rent distribution tools. In addition to this, Land Value Taxation instrument should be tested through some pilot projects in areas where rents are high (such as İstanbul). There should be made some regulations according to results of these pilot projects.

### ***Political Dimension of Implementation***

Dye and England stated that “any tax policy change must meet the test of being politically acceptable to the public at large (2010:26)”. Acceptability of land value tax should be discussed from two perspectives. On one side, this taxation will not be wanted by landowners. On the other side, this system could be beneficial for middle-low classes because the taxation causes decrease in land prices and consequently in housing prices. Hence it can be said that there would be both winners and losers. Skaburskis and Tomalty pointed out that “The immediate redistribution consequences of a move toward land value taxation would be the shift of tax burdens from owners of well built out property to the owners of underused or vacant inner city land. In the long run the land tax would reduce burdens on the developers and eventual owners of property that exploit fully the advantages of a site and increase burdens on the other

owners. The fairness of these redistribution consequences may be questioned on the grounds that the owners of underused land may have paid a price that reflects the future value of the land under the current tax regime and would suffer financial losses while waiting for their development opportunities to emerge''(1997:405).

In this thesis, we tried to reveal current schemes of rent creation in Turkey and the results of this scheme. Then we are putting an alternative project to the existing rent distribution order. Even though Land Value Taxation suggestion annoys some specific interest groups, we expect that this suggestion will be rooted in the memory of community. Thus, people could dispute present arrangements over this alternative suggestion. Because, today experiences in Turkey show us that we need to explore different ways to provide healthy and sustainable development in cities. Therefore, Land Value Taxation can be thought to be a remedy and as an alternative for current implementations which depend on commodification of land. Academicians, politicians and city planners should come together to design a disincentive taxation system with taking Land Value Taxation as an example. In the thesis costs-benefits and incentives for the different stakeholders are revealed. Out of this, the last word will be said by politicians because putting into action the Land Value Taxation Proposal is in fact a political decision. Politicians who have the courage to accept such a bill probably will lose their some supporters. At this point, there need to be found politicians who hold public interest superior to their own interests.

### ***Consequences of Land Value Taxation on Urban Form and Regional Development***

According to the review of the theoretical literature, land value taxation has various suggestions in terms of urban planning. These are designation and implementation of Land Value Taxation in a way to increase development, increase density and discourage to hold empty land in urban areas (Skaburskis and Tomalty ;1997:406). Skaburkis and Tomalty pointed out that urban planners worry about “the land base is largely outside the core area and that a land value tax would ignore the major asset of central cities, namely the capital embedded in the built form” . According to Skaburkis and Tomalty, especially central city planners are more caring in land value taxation and they advocate “region-wide basis implementation with a pooled assessment base”(1997:412). Moreover, they stated that big part of taxable land will be in suburbs as a result there is not much empty land in city centers. Therefore, there can obtain various side effects

such as “conflicts over density issues, volatility in assessments, spatial redistribution flowing”. In order to manage with these side effects, again region-wide tax pooling is suggested by financial officers to maintain assessment base of central cities. Furthermore, some urban planners recommended that improved attention need to be showed while doing zoning arrangements in order to control density changes (1997:412,413). Another issue which is emphasized by Skaburskis and Tomalty is impacts of Land Value Taxation in peripheral areas such as “penalties on farmers, bankruptcies of smaller development firms, and increase of development pressures in areas not yet ‘ripe’ for development”. They stated that, when taxes rise in peripheral lands, land owners will hurry to expand suburbs and this situation will lead growth the urban area. According to the some officials, there should be “stricter planning controls and improved staging of infrastructure investments”. There is a suggestion which advocates a special exemption for peripheral land until becoming ready for development. Related to this suggestion, it is stated that planners should show great sensitivity while making urban plans because of the market for different building types increase (Skaburkis and Tomalty; 1997:413).

In result, probable consequences of Land Value Taxation should be estimated in implementation areas and there should be taken precautions for negative results.

### ***General Consequences***

Consequently, this thesis makes an observation about rent creation & distribution instruments of Turkey and a land value taxation instrument which is established in order to solve urban rent redistribution problem. Nevertheless, so far few studies of the effectiveness of land value taxation process has been carried out by government and related institutions in Turkey. Therefore, this thesis has made a contribution to filling this gap by making a policy proposal and examining various examples of Land Value Taxation. Finally, this thesis captures some of the results after examining whole process.

In the Development of Current Policies part, we examined the impacts of neoliberal policies on the urban land policy of Turkey. We investigated that, related to neoliberal regime, political interventions to the urban land are mostly focused on how to create rent. The legal regulations which were enacted after 2002 can be interpreted as servicing these rent creation processes.



The basic research question of the thesis ‘how to transfer urban rent’ has been explained with examining various rent distribution instruments. Among these instruments ‘Land Value Taxation’ is explained in detail with various exercises and foreign country examples.

Economic theory suggests that, compared to a traditional property tax, land value taxation promotes efficient use of society’s resources, encourages local economic development, and probably discourages urban sprawl (Dye and England:17). In the thesis shift from a traditional property tax to a land value tax is explained with some simulations in order to move a step further from these theoretical arguments. In our first exercise, we examined how the tax burden of the traditional property tax and LVT differ from each other. Before an area has a development plan, doing changes on it’s upper scale plan puts the urban lands in this area to the attention of speculators. Local capitalists and interest groups see the area as a profitable investment. We showed in the exercise the deterrent effect of land value tax against rent focused speculative investments. In the phase of the decision of any investment, investor will make a cost benefit analysis and with land value taxation, holding the land with 15 or 20 years won’t be profitable. Therefore, Land Value Taxation directs development in a way in which urban planning alone can not be enough successful. Enacting the land value taxation has a meaning other than stopping speculative investments. Land value taxation causes increase in build densely. In a second exercise, we examined the effect of LVT for infilling areas and revitalizing old buildings as a result of which holding areas will not be sensible actions anymore. In the scenario, we see that tax burden of unfilled land is too high. Therefore, land owner prefers to build or sell. In the last case, it is expressed that becoming owner of a house with mortgage credit which includes tax payments is easier with Land Value Taxation. In this context, the salary needed to afford mortgage with traditional property tax and LVT is compared.

Subsequent to exercises, various experiences of Land Value Taxation are examined to investigate results that we obtained from simulations. Analyzing the existing experiences is beneficial in order to understand how Land Value Taxation might operate in Turkey. After surveying international examples, we conclude that Land Value Taxation idea has been working successfully. These experiences prove that Land Value Taxation is applicable beside acceptable economically.

As a result, we analyzed how the Land Value Taxation can be used in order to transfer urban rent to the public. It is difficult to understand the process of the Land Value Taxation with only the Henry George theorem which discusses the rent creation process from mostly on land speculation/speculative investments. Today, there is increase in variety of rent creation instruments as we analyzed in the thesis. From this point of view, land value taxation model is inadequate. An alternative broader rent taxation model should be developed. Dynamics of the market and political culture should be understood in detail and modified land value taxes could be designed for all rent creation projects.

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