

State Owned Enterprises, Entrepreneurship and Local Development: A Case From Turkey¹

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Abstract

This study has examined the results of SOE policy by comparing two provinces in Turkey, one that was a would-be beneficiary of this policy and the other not. Statistical data and anecdotal evidence from in-depth interviews show that the SOEs increased labor costs, discouraged private entrepreneurship and guided locals to political, rather than productive solutions to their economic problems; regional development in the province in which SOEs dominated the regional economy was hindered. These results are in line with the reported outcomes of SOE policy adopted by Italian governments in order to promote development in southern Italy.

Keywords: *State Owned Enterprises, Local Economic Development, Turkey*

Introduction

From the Great Depression in 1929 to late the 1970's, state-owned enterprises (SOEs), like other forms of state intervention, were regarded by academics and

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policy makers as an effective tool to promote economic development at regional and national levels. Strong support from a variety of quarters stimulated the establishment of new SOEs and increased their weight, in both developing and developed economies, during this period (Toninelli, 2000; Short, 1984).³

Although economic development of a nation or a region was one of the primary economic motivations⁴ behind the establishment SOEs, in many countries they were assigned to new political and social targets by politicians which were contradictory to economic ones. Pursuing multiple aims forced the managers of SOEs to sacrifice economic aims to achieve the others (Basu, 2008). Furthermore, even when confusion about the different targets was absent, shortcomings in the governance and financial structure of SOEs, together with the lack of motivating market competition all combined to work against their efficient operation (Vickers and Yarrow, 1988). Therefore, by the late 1970s, the contribution of public enterprises to economic and social development had been called into question. They were criticized as being a source of inefficiency in economies and an obstacle to economic development.⁵

Parallel developments occurred in Turkey, too, during this time. The state, which had played a regulatory role in the economy in the early years of the Republic, began to intervene directly after the 1930s. In the atmosphere of the global economic recession, and with the influence of government staff impressed by the industrial advances of the Soviet Union, SOEs grew in range and scope, in order to meet developmental targets of the Republic. Even, during the era of the Democrat Party, which came into power in 1950 promising to privatize government enterprises, the number of state-owned enterprises continued to increase more rapidly, in fact, than they had in the previous eras, classified as 'statist'.⁶ The growth of state-owned enterprises went unchecked until views on state-owned enterprises turned negative in the 1980s continuously increasing in number and expanding to include areas difficult to associate with developmental aims, such as meat and fish, retailing, groceries, the film industry and nightclub management (Yenal, 1999).

³ Data collected from various developed and developing countries show that in the mid-70s SOEs accounted for similar shares of GDP in both groups of countries (approximately 9 percent) notwithstanding, differences within each group. The contribution of SOEs to capital formation was double in developing countries (Short, 1984).

⁴ The other was correcting market failures.

⁵ For a brief survey of different country experiences, see Rondinelli (2008).

⁶ The production and added value of public enterprises was doubled in real terms in the decade 1950-1960, when the Democrat Party was in power (Yenal, 1999).

Even though the views that see SOEs as engines of development has lost too much ground since late 1970s, discussions about the effectiveness of SOE policy or state intervention as a whole on economic development is still continuing. Many studies agree that active state involvement in the economy played a significant role in the economic development of the West (Adelman, 1999) and developing countries (Kohli, 2004; Brohman, 1996), including Turkey (Buğra, 1994; Kepenek and Yentürk, 1994, Boratav, 1982). However, even these studies mention that not all intervention policies are equally effective and similar policies have differing consequences depending on the environment in which the policy is adopted.⁷

The aim of this paper is to discuss the effectiveness of SOE policy on regional development, based on a case from Turkey. First, the province of Sivas, one of the 81 provinces in Turkey, where public enterprises were established intensively from the early years of the Republic onwards, is compared – in terms of general economic performance and development of the private sector – with the province of Çorum, where the first SOE was opened in the 1950s and state industrial investments remained very limited. The results of this comparison indicate that Çorum out performed Sivas in terms of both economic development in general and private entrepreneurship in particular.

The second stage of the study is devoted to explaining the difference between the provinces. To this end, in-depth interviews with businessmen and representatives of chambers of commerce and industry were carried out in the two provinces. Additionally, the limited historical data available on these provinces is also employed in order to interpret the results. The combined findings of the field study and supporting data indicate that, notwithstanding the significance of other factors, the state's massive involvement in the economy of Sivas had a destructive affect on both quantity and quality of entrepreneurship and, accordingly, development of the province, in contrast to what had been expected from the SOEs.

This finding is not peculiar to the case discussed here – SOEs failed to meet developmental aims in other countries also. The Italian experience is probably the best known example in this regard. Italian governments used SOEs, along with other intervention tools, in order to close the developmental gap between the rich North and poor South. However, studies show that SOEs in Italy also hindered the development of private entrepreneurship and thus were unable to make a contribution to the well-being of the South. In this paper, therefore, a special emphasis is given to the

⁷ See e.g. Buğra (1994) and Özcan (2006) for Turkey, and Kohli (2004) for various other countries.

Italian case and unintended consequences of SOEs on private entrepreneurship and development there, and, accordingly, the two countries are compared. A comparison of experiences in the two countries – of Sivas in Turkey and Italy's South – indicates distinct similarities between the two, and thus consolidates the findings of studies (of both of the present case and the Italian case).

Although the consequences – especially unintended – of SOE policies in different countries are discussed in many studies, the number of studies that focus specifically on this issue of their impact on private enterprise is very limited. The situation is worse for Turkey. To my knowledge, there is only one study (Yıldırım, 2007) that discusses the negative effects of SOE policy on entrepreneurship in Turkey. This paper will thus contribute to the literature in this context, especially for Turkey.

The paper is organized as follows. The following section discusses the relationship between entrepreneurship and development and the unintended consequences of SOE policy on entrepreneurship these for (regional) development in Italy. Section 3 describes the developments in the economies of Sivas and Çorum between the years 1930 and 1980, the heyday of the interventionist policies, and the consequences of these. In Section 4, outcomes of the SOE policies in Turkey are compared with those in southern Italy.. The final section discusses the results and their policy implications.

SOEs, Entrepreneurship and Local Development: Lessons From the Italian Experience

Although it is mentioned as one of the four production factors in economics textbooks, entrepreneurship is less frequently handled in academic works than the others.⁸ The history of studies emphasizing the role of the entrepreneur goes back to the works of Adam Smith and Cantillon, however, while major contributions were made in the 20th century and the number of studies has flourished in recent years.

The role of the entrepreneur in economic development was first formulated by Joseph Schumpeter (1963), who emphasized innovative entrepreneurship as a prime cause of economic development. Further studies pointed to various other ways in which entrepreneurship may affect economic development. Stel et al. (2005) summarizes these contributions under four headings: entering new products or market processes, increasing competition, introducing variations of existing products and services in the

⁸ Probably because of difficulties in defining and measuring entrepreneurship (Stel et. al., 2005).

market, and working more efficiently and for longer hours. This analysis is supported by various empirical studies (Caree and Thurik 2003; Stel et al, 2005).

Although the role of entrepreneurship on development is recognized by many scholars, a distinction between productive and unproductive entrepreneurship is also made. The entrepreneurial potential of an economy may shift to either productive activities like introducing innovative products or unproductive activities like rent-seeking. The direction of the shift is determined by the 'rules of the game' as set by governments. Entrepreneurs prefer unproductive activities, which have a destructive effect on development, when the returns of these activities are higher than those of productive activities. Therefore entrepreneurship will tend to make a contribution to development only if governments adopt policies that favor productive activities (Baumol, 1990).

In capitalist economies the major contribution to development is expected from private entrepreneurs, so SOEs were assigned a complementary role to private entrepreneurship rather than being established as an alternative. Governments invested in those fields where private agents were thought to be unable to invest either because of lack of capital or low returns compared to other opportunities in the market. Governments also aimed to promote private entrepreneurship through SOEs, by providing cheap inputs to and creating extra demand for the private sector (Toninelli, 2000).

Despite these initial intentions, however, SOE policy in many instances either failed to promote entrepreneurship or, worse, promoted unproductive entrepreneurship only and was unable reach developmental targets. The Italian experience is a good example in this regard. Italian governments from the 1950s used all the usual intervention tools, including establishing SOEs, in order to close the developmental gap between northern and southern Italy. Yet these efforts did not succeed in bridging the gap. Per capita income, consumption and investment in the South were still well below the North in the 1990s, and unemployment twice as high (Boltho et al, 1997).

The role of SOEs in this failure is explained in several different ways. Florio (1996) refers to the size of the companies involved. Italian governments subsidized large firms, both private and public, so as to promote development in backward regions. The idea behind this policy was that these firms would promote the birth and growth of small and medium size firms around them. However empirical evidence points to the opposite. The large, integrated firms made no contribution to

the development of entrepreneurship in their regions. On the contrary, by utilizing the limited entrepreneurial potential of the region in their huge production units, they hindered the realization of this potential.

Italian governments used SOEs as a form of wealth redistribution from the rich North to the poor South, by employing a huge number of southern Italians in the SOEs. Due to populist politics and strong unions, workers in these enterprises gained relatively high wages and generous social rights (despite their low productivity as compared to the northern counterparts). Income transfer through this SOE strategy of higher wages led to several unintended consequences on the development of the South.

First, high wages accompanying low productivity raised costs and reduced competitiveness in the region. The increase in labor costs intimidated new investments to the South and moved exiting ones to other regions, which in turn led to higher unemployment and migration (Boltho et al., 1997). Second, local people were discouraged both from finding jobs and developing careers in the private sector, and from starting their own companies. Because of the well paid and secure jobs available in the public sphere, people saw their futures and directed their efforts there, including potential entrepreneurs, who opted for the relative ease of the SOEs rather than the risk and hard work of establishing new businesses. This all had significant negative effects at managerial and skilled-worker levels on small to medium size businesses in the region, as well as on the number and viability of local startup companies (Alessina et al., 2001). Finally, since entrepreneurs in the South realized that a major part of their income was determined through political decisions, they tended to focus on rent seeking rather than productive activities (Boltho et al., 1997).

As the above mentioned studies have shown, the effects of SOE policy in Italy were far from promoting entrepreneurship and productive activities. Therefore, it is considered either that the policy made no contribution to the development of the South, or that it actually made a negative contribution.

A Brief Economic History of Sivas and Çorum Since the Beginning of the Turkish Republic⁹

Sivas and Çorum are two provinces in central Turkey, near the Black Sea but

⁹ Unless otherwise stated, the data in this section is based on the entries for Sivas and Çorum in the *Yurt Ansiklopedisi* [Homeland Encyclopedia] (1982).

not on the coast, and are geographically very close to each other¹⁰ The land area of Sivas, one of the largest provinces in Turkey, is more than double that of Çorum, and there has not been a significant change in the borders of the two provinces since the establishment of the Republic (See the map below). Accordingly, the population of Sivas has historically been approximately forty percent above Çorum's.

Map. 1 Turkey



Historically, although several civilizations have been situated in this region, in 1923 when the Republic was established Sivas and Çorum were two rather poor provinces, the mainstay of both being mainly agriculture, with micro scale industries based on processing local resources. However, Sivas had the advantage of being the center of commercial activities in the region, since it had been administrative centre of the surrounding provinces, including Çorum, before the Republican period.

Direct Investments of the State in the 1923-1980 Period

The first major economic advance of the new Republic following its establishment in 1923 was the development of the railway network. Sivas was among the first provinces to benefit from this move. The city of Sivas was connected by railway to the national capital, Ankara, in 1930, and to the nearest port, Samsun, which was the

¹⁰ With today's road facilities, the distance between the two provincial capitals is 285km.

leading seaport city on the Turkish, Black Sea coast at the time, in 1932. When, as early as the 1940s, this railway line was extended to Erzurum, the major economic center of the Eastern Anatolia region, as early as the 1940s the city became the central hub for the region. Sivas' connection to the national market was thus completed in the best manner for the conditions of the time.

One of the first state enterprises in the province was the Sivas Railway Machines Establishment (DDY Cer Atölyesi). The Establishment, the foundations of which were laid in 1934 and finally opened in 1939, was set up to produce and maintain locomotives and carriages required by the Turkish Republic State Railways for the state network. In the following years, new production units, power stations and even a maintenance facility and apprenticeship school were added to the rapidly developing enterprise. By 1973, 4500 people were working for what was now confirmed as one of the leading national centers of railway stock engineering.¹¹

Linked to the development of the railways under the Five Year (Industrialization) Plans of the 1930s was the development of the coal and steel sector. Another SOE founded in Sivas during the early years of the Republic, therefore, was the Iron and Steel Enterprise (Divriği Demir-Çelik). Operative from 1938, this enterprise was located in the provincial district of Divriği, where rich iron deposits were located, and processed iron ore for iron and steel factories nationwide. In 1973, approximately 1000 people were employed here, most of whom lived in the town of Divriği and its surrounding villages.¹²

Other SOEs were developed in Sivas during the pre- and post-WWII period, parallel to these public investments in the railway and iron and steel sectors. In 1937 it was decided that a cement factory should be founded to meet increasing requirements, both locally, in Sivas, and in the region. As a result of various delays in construction, the factory could only be completed in 1943. In 1945, a ceramics factory was founded nearby, and brick and tile production commenced. Capacity was increased and technology renewed over the years in this factory, and 419 people were working there as of 1983. Additionally, a military uniform sewing plant, employing approximately 200 workers, was established and began operations in 1945 (Mahiroğuları, 2002).

¹¹ Like other SOEs mentioned here, the name and structure of this enterprise changed over the years. In this case, there were changes in 1953, 1972 and 1984, when it became the Turkish Railways Machine Industries Inc. (*Türkiye Demiryolu Makinaları Sanayii A.Ş.*, TÜDEMSAŞ). See: <http://www.tudemsas.gov.tr/>

¹² Listed as one of the main railways constructed during the 1930s, the provincial Sivas (Divriği)-Çetinkaya route was termed the 'Iron Line'. See: http://www.tcdd.gov.tr/tcdding/tarihce_ing.htm

The state did not make any significant industrial investment in the province in the 1950s. The most important public investment in the province in the 1960s was the Sızır Hydroelectric Power Plant, built in 1961 to meet the increasing energy requirements of the district. In 1963, a carpet workshop was founded by the Provincial Administration in order to develop handloom carpet weaving in the area. In 1968, Sivas came under the scope of the 'priority regions for development', which encouraged private sector investments. However, the incentives offered within this scope made a very limited impact on the development of the private sector.

The most prominent industrial investments of the 1970s were again made by the state. These were a silk yarn and weaving factory with 250 employees, put into operation in 1972, and a dairy products factory with 28 employees, opened in 1976.¹³ Additionally, a feed factory was founded in 1975, for which the capital was provided largely by public organizations.

In Çorum, industrialization was limited from the start to small ventures in the private sector. The first SOE in the city was a cement factory, established in 1957. The factory was the largest factory in the province when it went into operation, employing approximately 250 workers. The second investment was a dairy products factory, operative from 1977. Apart from these two factories, the only other planned SOEs were two factories decided on in 1976, but the construction of which was later halted.¹⁴

Comparing the Performances of the Two Cities

Sivas and Çorum had similar economic conditions at the beginning of the Republic, but a gap developed between them in favor of Çorum which widened over time. Although Sivas began the Republican period with some major advantages – its historical positioning as an administrative center, siting as a regional railway hub and natural resources of iron ore deposits – these were not translated into economic prosperity. In fact, by comparison with its near neighbor, Çorum, it lost ground.

By 1982, the per capita GDP in Sivas had dropped to just 82 percent of that of Çorum, falling to as low as 63 percent by 1987 (Özötün, 1988). Parallel to economic development, unemployment was also significantly reduced in Çorum. Between the years 1980 and 1985, whilst the unemployment rate in Sivas was consistent with the

¹³ Employee numbers are for the years 1982-3.

¹⁴ Of these factories, the Çorum Sugar Factory did eventually start operating, but only in 1991.

national average, in Çorum it was approximately half of this (DİE, 2004).

The economic performance of Çorum attracted public attention. Its was cited among the ‘Anatolian Tigers’, those cities in Anatolia which performed particularly well in the post-1980s period. The interest of the academic community followed the interest of the public, and economic development in the province of Çorum became the subject of academic studies (Eraydın, 2002; Keyman and Lorosdağı, 2010).

In the area of entrepreneurship, Çorum exhibited a higher performance compared to Sivas. Table 1 shows the number of self-employed as a proportion of the working population, according to the censuses conducted between the years 1950-1985. As can be seen, this figure was consistently higher in Çorum than in Sivas, particularly in manufacturing industry, the sector most likely to be effected by the SOEs with their almost exclusive orientation to industrial production and services. In some years, the proportion of the self-employed in the manufacturing industry in Çorum was almost double that of Sivas.

Table 1. Ratio of self-employed to economically active population												
	1950		1955		1970		1975		1980		1985	
	T	M	T	M	T	M	T	M	T	M	T	M
Sivas	0,19	n.a.	0.26	n.a.	0.26	0.27	0.26	0.25	0.23	0.18	0.25	0.17
Çorum	0.21	n.a.	0.29	n.a.	0.29	0.44	0.27	0.44	0.24	0.26	0.25	0.27
T = Total. M = Manufacturing industry Source: DİE, Population Census												

Another indicator of the development of the private sector in Sivas and Çorum is derived from the General Industry and Workplaces Census conducted by State Institute of Statistics in 1980. According to the census results, the number of small industrial enterprises in 1980 was 1,275 in Sivas but 1,891 in Çorum, almost 50% higher. This is all the more striking as an absolute figure, given that the size (population) of Sivas was so much greater than Çorum's.

Table 2 shows the distribution of small businesses operative in 1980 according to establishment date. This provides a picture of the historical development of private¹⁵ entrepreneurship in both cities. As seen from the table, the number of enterprises

¹⁵ As the public enterprises tended to be medium-to-large size institutions (i.e. employing more than the 10-person limit used here), it can safely be assumed that all of the enterprises included in this census were private concerns.

established in Çorum was above that in Sivas in every five-year period after 1923. Although interest in Çorum as an Anatolian Tiger is a relatively recent development, it has in fact been more successful than Sivas in terms of small business start ups throughout the modern period.

Table 2. Workplaces operating iⁿ 1980 and employing 10 or less workers, according to date of establishment

	Pre-1923	1923-39	1940-44	1945-49	1950-54	1955-59	1960-64	1965-69	1970-74	1975-79	1980
Sivas	5	1	7	18	21	24	60	105	348	536	149
Çorum	1	11	21	33	70	72	152	170	388	783	187

Source: DİE (1980)

As a matter of fact, studies also attribute the successful economic performance of Çorum to its success in creating private entrepreneurs. Research by Eraydın (2002) in particular has demonstrated that a large majority of the owners of the industrial companies in Çorum are from the province. And developing their capital and knowledge bases into the 1980s, these and other private entrepreneurs acquired the potential to make good use of the opportunities created by the policies implemented subsequently, which indeed they did .

Can the Italian Experience Explain the Difference in Performance?

As a result of large scale state investments which continued until the mid-1970s, SOEs played a huge role in the economy of Sivas, like in South Italy, while the role of SOEs remained limited in Çorum. In the manufacturing industry survey of 1971, whilst the proportion of those working for SOEs was 96 percent in Sivas, this figure was 40 percent in Çorum. The contribution of SOEs to industrial output was 85 percent in Sivas, as opposed to 59 percent in Çorum (DİE, 1971). Moreover, the state was a major employer in Sivas not only in industry but also in the service sector. Thousands of people in Sivas were working for government bodies like the Directorate of Highways, Directorate of State Hydraulic Works, etc. In fact, by 1984 70 percent of salaried people in Sivas, half of the entire population of the province, were employed in the public sector (Çokgezen and Altun, 2010).

The concentration of SOEs in Sivas clearly also resulted in high rates of

unionization and labor costs, as in southern Italy. The expectation that SOEs would have relatively high rates of unionization is born out by the figures for the two Turkish provinces. Of the workers benefiting from collective agreements in the two provinces, 76 percent in Sivas and 58 percent in Çorum were working in the public sector, both figures significantly higher than the proportion of workers employed by the state. Given the higher rate of SOE employment in Sivas, therefore, this should be expected to translate into a greatly raised rate of union membership in Sivas. And indeed, unionization did occur at a much higher level in Sivas than in Çorum. The number of workers benefiting from collective agreements made in the years 1972-79 was 23,647 in Sivas, but just 6,156 in Çorum (Yurt Ansiklopedisi, 1982)

High rates of unionization would be expected to go with high rates of pay and other employee benefits. Again, the statistics bear this out for the cases in question. In the early 1970s, whilst the average annual salary in the manufacturing industry in Sivas was 16.7 thousand TL (Turkish Liras), it was 14 thousand in Çorum and the average wages in the private manufacturing sector in Sivas were also 20 percent higher than in Çorum (DİE, 1971). This does lend credence to the parallel of Sivas with southern Italy and the idea that high SOEs salaries had a knock on effect on labor costs in general.

Remuneration would obviously be a prime consideration in attracting people to the SOEs, but the advantage of good pay gained by those working for SOEs was not limited to high wages. Job security and social facilities (Apak et al, 1952) such as lodging, school, crèche, and free lunch were at least as effective as wages in making jobs in public enterprises appealing.

The attraction of the SOEs is confirmed by personal recollection. Interviewees in Sivas mentioned that, in the past, public employees were the most affluent and prestigious group there. Several people mentioned that fathers would want their daughters to marry a worker in the public sector. Finding a job in a state enterprise was the dream of every young man, and families would put their effort into finding a connection, especially political, so as to be able to place their sons in a vacant position in the public sphere.

So did the SOEs act as disincentives for entrepreneurship? The advantages of working for a SOE in this regard are definitely testified to by businessmen in Sivas. All of those interviewed for this research agreed that attractive opportunities offered by public enterprises had rendered entrepreneurship less appealing than a position in public sector. As described by a local car dealer:

'The ones who worked for the Railway Establishment had the right to pass his position on to his son when he retired. Ready job. Good income. Free coal for

heating. Free train pass. Who goes into business?'¹⁶

This picture is completed by another interviewee, who migrated to Istanbul from Sivas in 1970s, started a business there and later, in the 2000s, opened a branch back in his hometown:

'Those who were lucky enough found a job in public enterprises. Those who did not, moved to big cities or abroad.'¹⁷

One of the theories supporting the use of SOEs as an engine of development was that the establishment of large size enterprises would encourage satellite entrepreneurship and spin-off development around the large, public venture. In some cases in Turkey, state manufacturing enterprises certainly did stimulate the establishment of private enterprises around them whose production was directly integrated to the production of SOEs. A state yarn factory set up after the Second World War in the Aegean city of Denizli, for instance, triggered the birth of small scale textile industry in the region (Eraydın, 2002).¹⁸ Spin off development could include a generalized contribution to the workforce, such as raising the skills level. Workers trained in SOEs might meet skilled labor needs in the private sector or be the source of the entrepreneurial class. Again instances of this can be found in Turkey. Workers of the Military Jet Plane Maintenance Factory in Kayseri, a neighboring province of Sivas, became pioneers in the local metal goods industry both as skilled workers and as entrepreneurs (Öztürk, 1997).

None of these positive effects of SOEs were realized in Sivas, however. State enterprises were big in size and constructed in an integrated form. They neither used input provided by nor provided inputs into local producers. Skilled workers retired from the railways plant in their 40s, for instance, would open a stationary shop or became a taxi driver, creating work for themselves, that is, in areas unrelated to their expertise.¹⁹

However, developments in recent years have suggested that things could have been different if the SOEs had been smaller in size and been designed in a non-integrated form. Following the policy change in the economic sphere in the

¹⁶ Interview with Şefik Sümbüloğlu, local car dealer.

¹⁷ Hıdır Özcan, photo/picture frame manufacturer.

¹⁸ The entrance of the state further into the textile industry in 1964 had the opposite effect on private textile firms, however.

¹⁹ The exception to the rule was one Halis Vermezoğlu, who established a camshaft and chilled cast plant (which in fact has today become Turkey's largest).

beginning of the 1980s, governments ceased investing and hiring in SOEs. Most Turkish SOEs have been privatized or are closed down now. Similar developments occurred in Sivas, as well. The exception in Sivas was the Railway Establishment, now TÜDEMSAŞ. It is neither sold, since no private entrepreneur found it profitable to operate the facilities, nor closed down, since no government has taken the political risk of closing down what is still the major employment source in the district. Yet, service and maintenance units have been closed down gradually and these works outsourced, which gave rise to private companies that provide these services.

Businessmen in Sivas who in the past saw the SOEs only as an apparatus of income transfer from the central budget to their pockets, now think that a golden opportunity was missed. The regret is expressed in the words of Osman Yıldırım, chairman of Sivas Chamber of Commerce and Industry:

If these orders [given by the Railway Establishment] had been given in the past, Sivas would have had a more developed metal goods and machinery industry and the workers retired from the Establishment would have started their lathe shops rather than opening grocery stores.

Mr Yıldırım claimed that the dominance of the state in Sivas' economy, and other aspects of communal life, shaped the mentality of locals in a very 'statist' manner. The facts support Mr Yıldırım's claim. Politics has always been important in Sivas – the district has given the country a disproportionate number of political figures, for example – and the people interviewed in Sivas for this research tended to explain the reasons for the current perceived economic problems of Sivas with reference to politics, like the privatizations, downsizing of SOEs, lack of government's attention to the district, inadequate government investments, etc.

Since the local people of Sivas tend to see the source of the problem in politics, they see the solution there also. The findings of a study that examines economic reports published by the Sivas Chamber of Commerce and Industry between 1965 and 2005 (Çokgezen and Altun, 2010) demonstrate that the businessmen in Sivas believe that the development of their locality would be best facilitated by more state investment, that the financial problems of local companies can be solved by the provision of more state subsidies and incentives and through state institutions.

Conclusion

SOEs have been seen as an effective tool to promote regional development in many countries. However, in some cases at least, this policy seems to have hindered

private entrepreneurship and local economic development, in contrast to the hopes and expectations.

This study has examined the results of SOE policy by comparing two provinces in Turkey, one that was a would-be beneficiary of this policy and the other not. Statistical data and anecdotal evidence from in-depth interviews show that the SOEs increased labor costs, discouraged private entrepreneurship and guided locals to political, rather than productive solutions to their economic problems; regional development in the province in which SOEs dominated the regional economy was hindered. These results are in line with the reported outcomes of SOE policy adopted by Italian governments in order to promote development in southern Italy.

These results do not lead us to a radical policy solution like complete rejection of the SOE policy in toto. Yet the evidence, derived from both Turkish and Italian cases, shows that negative outcomes of SOE policy on private entrepreneurship and regional development is more likely when SOEs dominate the regional economy and when constructed in integrated form, since the combination of these does not leave enough space for private companies to develop.

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