



Republic of Turkey  
Ministry of Finance  
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**REDISTRIBUTION OF POWER AND STATUS  
THROUGH PUBLIC FINANCE:  
THE CASE OF TURKEY  
(1980-2003)**

**M. Coşkun CANGÖZ**

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To My Family



## PREFACE

The political decisions, which were taken or not taken, have the power to change the balance of relations among different economic and social sectors within the society. In order to influence the flow of public resources from the state budget, there have been a number of parties that made an effort to be involved in the different stages of decision making. In this regard, budget, as the main tool of the state for shaping the economic and social life, has become the focus of power struggle.

However, different from many OECD countries, with regard to its capacity to manage financial resources, and its possible social outcomes, the social consciousness on the state budget has not been developed in Turkey until recent years. Therefore, the alienation of the society to the state's fiscal activities created an illusion that budget is a legal document which has to be prepared just to complete the formalities. On the other side, the twin crises of Turkey, experienced in November 2000 and February 2001, showed that the state budget may imply more than being only a law, and the possible consequences of the inefficient budget processes may result in unexpected and heavy crises. Consequently, after the crisis a number of reforms, including a constitutional change, on public finance were introduced and all budget processes were reviewed and changed drastically.

Considering the changing perception on the importance of the state budget, and wondering the possibility of the determination of the parties and factors, influencing the decision makers and executives during the budget processes which in turn result in loose fiscal policies and weak budget system, I decided to study on redistributive function of the state budget, but from the sociological perspective. However, it might be a useless effort for those who know the limitations of the budget document for a sociological analysis and the constraints coming from inadequacies of data. Therefore, the first initiation of this study was somewhat an intellectual exploration for me as one of the public financial management executives. Later it became my dissertation for the fulfillment of my PhD in sociology with the encouragement of Assoc. Prof. Mustafa Şen.

During my journey to complete this study, time to time, I felt very anxious about not being able to have a complete study in the end, and I faced with a real challenge especially when formulating the thesis. At that time,

my only objective was to gather all the necessary information and analyze them in a way to provide evidence that the state budget is a tool for redistribution of power and status. Therefore, I was far behind expecting to have this dissertation to be published. However, after submission of my thesis, Prof. Dr. Ahmet Haşim Köse, Assoc. Prof. Dr Sibel Kalaycıoğlu and Assoc. Prof. Dr. Ayşe Gündüz Hoşgör, who are the members of PhD thesis committee, strongly recommended me to have my dissertation publish as a book.

With the encouragement and support of my dear friend Assoc. Prof. Dr. Ahmet Kesik, the Head of Strategy Development Unit of Ministry of Finance, also one of the members of the Ph.D thesis committee, you are able to read this book as a publication of Ministry of Finance. This is also very meaningful for me considering that the owner of the budget is Ministry of Finance.

Besides, I would like to thank all of my Ph.D thesis committee members for their guidance and very valuable and respectful recommendations. I should express my sincere gratitude to Assoc. Prof. Dr. Mustafa Şen for giving me confidence with his existence at every stage of the preparation of my dissertation.

I have to mention my good fellows Gonca Erdener and Can M. Erdem, since I owed them more than thanks for their hard work to read, correct and criticize my dissertation with great diligence and dedication.

I hope this book will be beneficial for the ones who have an interest in fiscal sociology and I will be more than happy if I can make any contribution to increase the awareness of economic and social parties on the importance of state budget and its possible outcomes. Finally, I have to stress that if there are any errors or deficiencies in this study, I am the only person who is fully responsible from all of them.

M. Coşkun CANGÖZ

## TABLE OF CONTENTS

PREFACE .....	v
LIST OF TABLES .....	ix
LIST OF FIGURES .....	x
ABBREVIATIONS .....	xii
1. INTRODUCTION .....	1
2. BUDGET: WHAT DOES IT MEAN FOR A SOCIETY?.....	5
2.1. Power from the State and Society Relations Perspective.....	5
2.1.1. Marxist Approaches .....	6
2.1.2. Pluralist Approach .....	13
2.1.3. Influences of Globalization.....	16
2.2. Budget as the Fiscal Tool of State.....	19
2.3. Redistribution Function of State Budget.....	22
2.4. Power Struggle in Budget Processes.....	26
2.4.1. Politics and Bureaucracy .....	26
2.4.2. Principal – Agent Problem.....	28
2.4.3. Struggle within the Bureaucracy.....	30
2.4.4. Interest Groups and Bureaucracy.....	31
2.5. Public Goods as an Instrument to Change Power Balances.....	34
3. BUDGETING IN TURKEY .....	41
3.1. Legal Framework .....	42
3.1.1. Constitutional Regulations.....	42
3.1.2. General Accounting Law .....	45
3.1.3. Public Financial Management and Control Law .....	48
3.2. Power Balances in Budget Processes.....	52
3.2.1. Bureaucracy .....	53
3.2.2. Politics and Bureaucracy .....	54
3.2.3. Parliament and Government .....	59
3.2.4. President and Government.....	60
3.2.5. Interest Groups.....	60
3.3. The Scope of Budget.....	62
3.4. Budget Classification .....	65
3.4.1. Planning-Programming-Budgeting System .....	66
3.4.2. Analytical Budgeting System .....	68
3.5. Budgetary Assessments and Global Influences.....	70
4. METHODOLOGY .....	75
4.1. Period of Study.....	75

4.2. Legislation.....	77
4.3. Data .....	78
4.4. Re-classification of data .....	80
4.4.1. Re-classification of Budget Expenditures.....	80
4.4.2. Re-classification of Budget Revenues .....	91
5. REDISTRIBUTION OF POWER AND STATUS THROUGH THE BUDGET .....	96
5.1. Socio-economic and Political Environment .....	97
5.1.1. Economic and Political Developments .....	97
5.1.2. Changes in Power Relations .....	106
5.2. The Comprehensiveness of Budget.....	108
5.3. Distribution of Budget Resources among Elites .....	120
5.3.1. Politics .....	121
5.3.2. Military .....	126
5.3.3. Administration .....	130
5.3.4. Juridical.....	134
5.3.5. Religion.....	135
5.4. Budget Expenditures on Public Goods and Private Goods .....	138
5.5. Supporting the Market Sector .....	142
5.5.1. Education .....	145
5.5.2. Health.....	155
5.5.3. Transfers .....	159
5.6. Financing of the Evolution through Taxation and Borrowing .....	169
5.6.1. Budget Revenues .....	169
5.6.2. Deficit Financing .....	174
6. CONCLUSION .....	179
BIBLIOGRAPHY .....	193
Appendix : Summary Tables of Budget Data .....	210

## LIST OF TABLES

### TABLES

Table 1. Budget Preparation Cycle (Law no 1050).....	46
Table 2. Medium Term Budgeting Process (Law no 5018).....	50
Table 3. Re-classification of Budget Expenditures.....	82
Table 4. Sector Classification of Budget Expenditures.....	88
Table 5. Capital 500 Companies (Sector Breakdown).....	90
Table 6. Classification of Budget Revenues.....	91
Table 7. Sector Classification of Budget Revenues.....	93
Table 8. Three Phases of the Turkish Neo-liberal Experiment.....	105
Table 9 Budgets and the Political Will.....	110
Table 10 Non-Budgetary Public Spending Areas.....	117
Table 11. Expenditures on Public Goods and Private Goods (% GDP).....	140
Table 12. Breakdown of Private Goods (% GDP).....	144
Table 13. Literacy Rates.....	146
Table 14. Incidence of Public Spending on Education: Improvements between 1994 and 2001.....	150
Table 15 Breakdown of Large Scale Capital.....	164
Table 16 Breakdown of Medium and Small Scale Capital.....	167
Table 17 Sectoral Breakdown of GDP and Labor Force (% Share).....	168

## LIST OF FIGURES

### FIGURES

Figure 1. Poulantzas and Miliband on State and Economy .....	8
Figure 2. The Primacy of Politics.....	10
Figure 3. The Political and the Social.....	11
Figure 4. The Framework of the System .....	12
Figure 5. Individual Benefit From Public Goods .....	41
Figure 6. The Efficient Lindahl Solution.....	38
Figure 7. Excess Burden of Tax .....	39
Figure 8. Division of Power in Policy Formulation .....	58
Figure 9. Plan Program Budgeting System .....	67
Figure 10. Analytical Budget System.....	69
Figure 11. Size of the State Budget.....	111
Figure 12. Budget Expenditures .....	114
Figure 13. Budget Expenditures (excluding interest and personnel).....	115
Figure 14. Per Capita Budget Expenditures .....	119
Figure 15. Budget Allocations to Politics.....	122
Figure 16. Budget Allocations to Military.....	126
Figure 17. Budget Allocations to Administration .....	131
Figure 18. Budget Allocations to MoF .....	133
Figure 19. Budget Allocations to Juridical.....	135
Figure 20. Budget Allocations to Religion.....	137
Figure 21. Primary Education Enrollment Rates .....	147
Figure 22. Leaving Education to the Market.....	148
Figure 23. Education Expenditures .....	151
Figure 24. Students Enrolled in Private Universities.....	154
Figure 25. Budget Spending for Health.....	156

Figure 26. Change in the Health Spending.....	158
Figure 27. Transfers to Market Sector.....	160
Figure 28. Rising of Financial Sector.....	162
Figure 29. State in the Market Sector.....	165
Figure 30. Budget Revenues.....	170
Figure 31. Type of Revenues.....	171
Figure 32. Breakdown among the Social Groups.....	173
Figure 33. Transfers to Financial Sector.....	175
Figure 34. Breakdown of Financing Cost.....	177

## ABBREVIATIONS

AKP	: Justice and Development Party (Adalet ve Kalkınma Partisi)
ANAP	: Motherland Party (Anavatan Partisi)
AP	: Justice Party (Adalet Partisi)
CBRT	: Central Bank of Republic of Turkey
CCIIET	: Coordination Council for the Improvement of Investment Environment
CHP	: Republican People's Party (Cumhuriyet Halk Partisi)
COFOG	: Classification of Functions of Government
DGBFC	: Directorate General of Budget and Financial Control
DSP	: Democratic Leftist Party (Demokratik Sol Parti)
DYP	: True Path Party (Doğru Yol Partisi)
EBF	: Extra Budgetary Fund
EU	: European Union
ESA	: European System of Accounts
GAL	: General Accounting Law
GATT	: General Agreement on Tariffs and Trade
GFS	: Government Finance Statistics
HPC	: High Planning Council
IMF	: International Monetary Fund
KWNS	: Keynesian Welfare Nation State
MHP	: Nationalist Movement Party (Milliyetçi Hareket Partisi)
MoF	: Ministry of Finance
MoH	: Ministry of Health
MONE	: Ministry of National Education
MP	: Member of Parliament

OECD	: Organization for Economic Cooperation and Development
PEIR	: Public Expenditure and Institutional Review
PFMCL	: Public Financial Management and Control Law
PFMP	: Public Financial Management Project
PM	: Prime Minister
PPBS	: Planning-Programming-Budgeting System
RP	: Welfare Party (Refah Partisi)
SCS	: Schumpeterian Competition State
SDU	: Strategy Development Unit
SEE	: State Economic Enterprise
SIGMA	: Support for Improvement in Governance and Management
SPO	: State Planning Organization
SPP	: State Personnel Presidency
TCA	: Turkish Court of Accounts
TODAIE	: Turkey and Middle East Institute of Public Administration
TURKSTAT	: Turkish Statistical Institute
TUSIAD	: Turkish Industrialists' and Businessmen Association
USAID	: United States Aid for International Development
UT	: Undersecretariat of Treasury
UTFT	: Undersecretariat of Treasury and Foreign Trade



## **CHAPTER 1**

### **INTRODUCTION**

Depending on the ideological structure of state, fiscal activities of governments may vary from very higher levels to lower. Accordingly, its influences on economic and social interests of citizens may vary. In this regard, budget determines the distribution of the burden of state's economic and fiscal activities, in addition to operational costs. However, contemporary public finance theory not only focuses on public spending. It defines budget as the consolidation of revenues and expenditures (Pollack, 1999). Besides, it is a fact that most of the countries run budgets with deficits, since expenditures exceed revenues and as a result, finance the deficit by borrowing. In this respect, budgets have three components; expenditures, revenues and borrowing.

During the budget preparation it should be decided whether there will be balanced, surplus or deficit budget. This is a political decision which has different economic and social implications. In order to take a decision and determine the size of these effects, answers of a number questions such as "who?", "for what?", "how?" and "when?" are explored during the preparation of annual budget laws (Schiavo-Campo, 2007). The answers of these questions are determined within the framework of the authority given by the parliament and the redistributive policies of government. Determination of fiscal policy requires consideration of many interests and goals, such as the anxiety on missing of reelection or bureaucrats' desires for having a stable and effective tax policy or the promotion of well-being of the constituencies of interest groups (Pollack, 1999). The rules on the political processes and the role of institutions which have authority on budget cycle have power to influence distributive politics. In many cases, different political and social groups involve in policy making processes in order to influence the decisions in line with their expectations. Because, the state transmits the power of organized interest of other parties into redistributive policies, while collecting the revenues and spending the public funds. Additionally, state can generate power for itself too. In this respect, in a Leviathan government, state behaves like a monopolist and imposes taxes to maximize its own profit and ignores the burden on the society. Instead of seeking optimal taxation to maximize social welfare, leviathan governments aim to maximize tax revenue for its own benefit (Hillman, 2003).

Mainstream public finance theory assumes that the state is a rational actor responding through fiscal policies that are consistent with macroeconomic policies and it concerns with how fiscal policy affect revenue flows, income distribution and economic performance (Campbell, 1993). However, although there has been a limited interest on these topics in sociology theory, a number of sociologists study on taxes and public finances considering how these things affect and are affected by a wide range of political, institutional, economic, cultural, historical factors, under the name of fiscal sociology. On the other hand, even fiscal sociology explores how taxes and expenditures are determined and affect society; most of the studies are paying attention on taxes (Schumpeter 1954, Sharkansky 1969, Jacobs 1988, Hunter and Nelson 1989, Frohlick and Oppenheimer, 1990, Campbell 1993, Campbell and Allen 2001, Backhaus 2002). Therefore, exploring how expenditures are determined and affect the society could not be in the primary concern of fiscal sociologists. Moreover, Backhaus (2002) states that in such an under-researched field academicians should be encouraged to undertake special research projects especially in the area of budget management.

Considering the need for progress in the fiscal sociology area and particularly to contribute sociological analysis of budget, the main concentration of this study is on the redistributive influences of public finance, mainly the state budget, on power relations, as a response to requisitions raised by the fiscal sociologists. Therefore this study aims to explore to what extent state budget can be employed as a means of redistributive politics to change power balance within the society and to determine state's redistributive processes, the ways of transferring state's economic power to social groups. To this end, determination of the social groups which are supported via the state budget and the size of the financial resources allocated or transferred to these groups are also within the concentration area of this study. Consequently, in order to discuss power relations between state and the different groups in the society, more than the implementation, policy making is one of the main focuses of this study.

In this respect, the second chapter explores the meaning of state budget for the society from several perspectives. First, it is investigated that how state executes power in relations with society, according to different theoretical approaches. On one side, state may be employed as an apparatus for transferring means of production to a particular class or social group within the society; on the other side, from the pluralist perspective, decisions

are taken under the influences of a wide range of different parties, from voters to political parties and from bureaucracy to interest groups. Second, the main characteristics of budget is discussed, in order to clarify its limitations and strengths. Third, it is questioned that how state budget is used in order to share the burden of state's activities among social groups which have different economic and social interests. As a supreme power holder, state determines the public needs and shapes interrelation between public revenues and expenditures. Budget is the main tool for execution of state's redistributive policies. Fourth discussion in this chapter is the roles and functions of different social groups in power struggle during the decision making and implementation of budget. The main parties are determined as politics, bureaucracy, citizens and other interest groups. Power relations with regard to redistributive budget policies are discussed from every social group's point of view. Finally, determination of state's redistributive capacity is discussed with respect to the determination of the public goods.

The third chapter includes descriptive analysis of Turkish budget system. The legal framework of budgetary processes is discussed under the consideration of the roles and responsibilities of institutions, defined in constitution and several laws. In this respect, both General Accounting Law and Public Financial Management and Control Law are analyzed, comparatively. Institutional responsibilities are also evaluated from the power balances point of view. Additionally, in order to clarify the strength and redistributive influences of budgeting in Turkey the scope of budget is discussed by analyzing the developments on non-budgetary expenditure mechanisms in a historical perspective. In addition to the size of budget, presentation of budget is also important, since sophistication of classification may alienate both politicians and citizens to budget and trigger the principal-agent problem. In the end, the influences of international organizations and global developments are considered in this chapter in order to understand to what extent these factors are effective on the changing budget system within the last two decades.

The characteristics of data, its limitations and elasticity are evaluated in Chapter Four. Besides, the reasons behind the selection of 1980-2003 as the analysis period are justified. On the other hand, methodological approach for re-classification of the current budget classification is given as a part of this chapter. Budget expenditures are re-classified based on an approach developed by OECD (2005) to calculate the amount of public expenditures on public and private goods. Also, COFOG and GFS classifications are used

for the adaptation of the data for the international comparisons, done by OECD. This chapter also re-classifies both expenditures and revenues according to the interest groups who benefited or charged. Additionally, revenues are classified according to the collection type whether direct or indirect.

The fifth chapter first gives a summary of critical socio-economic and political developments during the period of 1980-2003, in order to understand the socio-economic and political background, since there have been some significant changes in the power balances. Within this context, comprehensiveness of budget has a key importance on the implementation redistributive policies. Therefore, using the budget data, its comprehensiveness is explored to discuss to what extent state budget is an efficient tool for redistribution. Based on this analysis, within the limitations of the data the amount of budget resources allocated to state elites, politics, bureaucracy, military and judiciary, and to an ideological state apparatus, namely religion, which could be derived from budget, are determined in order to investigate how power relations changed among them. Besides, by analyzing the developments on the expenditures for public goods and publicly provided private goods present a significant input for changing power balances between state and the market. State's redistributive politics and its influences on power relations are discussed in this chapter by analyzing the allocation amount of governments on education and health sectors. Education is also considered as one of the ideological state apparatuses. Therefore, expenditures on education shows indicators not only on the policies of ruling class whether to leave a public service to the market sector, but also the changes in the relative situation of an ideological state apparatus within the power relations. Additionally, direct influences of state's activities and their outcomes on the development of market sector are discussed by analyzing the amounts, transferred to market sector. Besides, both the changing trends in taxation policies and its influences on expected revenues of budget and the main social groups carrying the tax burden are determined. Similar analysis is done from the borrowing point of view.

Finally, sixth chapter, as the concluding chapter, includes a brief evaluation of redistributive influences of budget on the power relations, and the findings of study.

## **CHAPTER 2**

### **BUDGET: WHAT DOES IT MEAN FOR A SOCIETY?**

This study focuses on the employment of budget by state apparatus, the ways and the mechanisms of redistribution of power and status in this process. Therefore it does not go into the theoretical debates on state and society relations. In this regard, this chapter explores mainly what state budget means for a society from the sociological perspective. Consequently, it discusses the role of state budget in relations between the state and the society. Employing budget as a tool, state's role in power struggle among different interest groups is argued under different perspectives. Accordingly, how power execution is differentiated between a state that utilized as an apparatus by ruling class, and a state that have pluralistic decision making mechanisms is explored. Besides, a redistributive function of state budget is conceptualized while discussing the role of bureaucracy, politics, citizens and main interest groups.

On the other hand, this chapter briefly discusses the influence of globalization and international organizations on budget policy, since this issue is analyzed for the case of Turkey in Chapter 3. As an indicator for the size of state's redistributive power, definition of public goods and its implications are also explored.

#### **2.1. Power from the State and Society Relations Perspective**

Miliband (1987) argues that the theory of state is the theory of society, and of the distribution of power in that society. The relationship between state and the society has been widely discussed in social sciences from putting state in an autonomous position to an apparatus for exploitation of powerless. Conceptual framework of state has been analyzed in three theoretical perspectives; regulation theory, strategic-relational approaches and discourse analysis. Regulation theory concentrates on social and economic content of economic activities which are mainly determined by regulations. The institutions' contingency in decision making are actually the uncertainties in the rules, norms and procedures which are the dynamic framework of reproduction of specific forms of capitalist relations. On the other hand, strategic-relational approaches consider state forms and state interventions as the products of various political strategies. State is defined as an institutional condensation of the relationships between social and

political forces to advance competing hegemonic projects. However, it does not mean that state is the outcome of political struggles since it has a structurally inscribed capacity to resist, modify and exclude societal pressures. Strategic selectivity, state power and state apparatus are the main dimensions to understand how strategy and structure interact. Discourse analysis focuses on social identities as inscribed in a variety of intersecting discourses. Discursive formations considered as the clusters of concrete discourses which are shaped and transformed through hegemonic practices, taking place in the context of social antagonism, competing hegemonic projects which strive to articulate the social in different ways (Bertramsen, et.al. 1991).

### **2.1.1. Marxist Approaches**

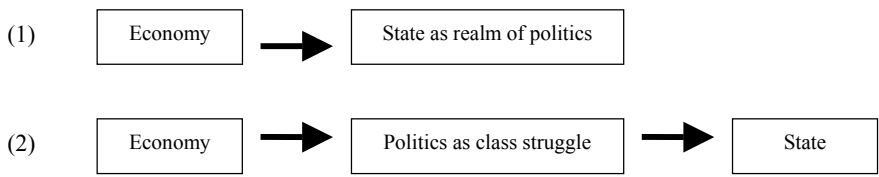
From the Marxist theory point of view, economy is the main determinant of superstructure and, state is an instrument to serve the maintenance of capital accumulation and to save capitalist economy (Aron, 1966). State acts as a tool for the domination of capitalist class and this tool let them to exploit labor class (Miliband, 1987, Aron, 2000). According to the Marxist theory, state gives an opportunity to capitalist class to have an authority on the masses of people and justify the ideology and the political system of domination that serves their collective interests.

State is a form which individual members of ruling class formulates the ruling ideas which has the function for capitalist class that is similar to class consciousness serves for the labor class (Cosser, 1971). Mills (1956) took further steps and argued that such pivotal positions within the state are occupied by some people, whom he called the power elite and they are in a position to make decisions having major consequences. The power elite consist of major corporations, the military and the governments run the machinery of state through a centralized decision making power to realize their own purposes. Miliband (1987) asserts that the state is run by a number of state elites who occupies the central institutions. These elites who are the politicians, senior military and police officials, senior civil servants and high level judges, act to defend the interest of ruling class or bourgeoisie, since most them are the members of bourgeoisie. According to him, these state elites promote their own views by using the economic power of ruling class to shape the beliefs and wishes of the mass. Consequently, the individuals encouraged to be content to enjoy the blessings which are showered upon

him by the generous, public spirited and socially responsible bourgeoisie in order to cement their dominance through socializing the non-elite background civil servants with the values of elite and manipulating the beliefs of mass.

In contrary, Poulantzas (1975) put emphasize on institutions within the society, since all of them have a political / ideological role to play in society, while Miliband (1987, 2008) put more emphasis on the role of government officials, working on behalf of capital, more than the institutions. According to Poulantzas (1975), the state is vital for maintenance of the stability of the capitalist system and the institutions of states, consisted of a compartmentalized plurality of power centers which class relations are based, present an internal cohesion. State automatically tends to serve to the interest of ruling class. He argues that it is not a requirement for the members of elite to occupy the critical positions in the state, because the behaviors of the occupants of elite positions in the state are determined by their class position, not their class origin and the characteristics of their job ensures that they act in the interest of the bourgeoisie, regardless of their background. The infrastructure is the main determinant. As a result the ruling class has not to be the politically governing class because of the “relative autonomy” from the ruling class. On the other hand, because of this situation, to some extent, state is free from the ruling class’ direct influence and independent from its direct control. However, Poulantzas (1975) underlines that this autonomy is essential to serve for the common interests of ruling class, otherwise because of the internal divisions and conflicting interests’ of bourgeoisie, state would serve only for whom occupying elite positions within the state; consequently, the power of ruling class might be weakened. Besides, state can present itself as the representative of the mass, so to say society as a whole.

Therefore, for both of them, state is capitalist because of the close relations between branches of the state and different fractions of capital (Figure 1).



**Figure 1 Poulantzas and Miliband on State and Economy**

Source: Bertramsen, Peter, Thomsen, Torfing, 1991, p.4

In both models, the state is depicted as a separate region, the role and nature of which is explained by something outside, and the operation of the politics is determined by capitalist economy (Bertramsen et.al. 1991). Within this framework, Poulantzas defends the first model while Miliband is close to the second. As mentioned above, Poulantzas, (1975) argues that state is not considered as a separate structure from the ruling class, adversely integral and vital to their interests. It acts as a "balancing mechanism" between the various classes fractions of the bourgeoisie, ensuring that internal conflicts do not endanger their overall class cohesion and economic domination of society. Short-term decisions can be taken considering the interests of ruling class, but, in the long-term, governments make decisions designed to ensure the long-term survival of the capitalist system.

Similar to Miliband (1987), Poulantzas (1975) puts emphasize on the legitimation of the use of the power of ruling class. He evaluates state as the summation of repressive apparatus which are government, administration, courts, army and the police and the ideological apparatus such as political parties, church, unions, schools, mass media and family. He states that both apparatuses are necessary to obstruct to develop class consciousness in labor and let capitalism to survive.

Likewise, Althusser (2000) states that the reproductive function of superstructure is accomplished by the exercise of state power in the state apparatus and the other ideological state apparatuses which religion (church), family, education (schools) mass media, culture (literature, arts, sports etc.) trade unions, courts, political parties. The ideological state apparatus is characterized by their plurality and diversity and public which make diversity of public and private possible. Except courts these

ideological apparatuses do not take place in the Marxist state apparatus but reproduce the ideology of the ruling class. They all focus on the same objective which is re-producing of the relations of production but employ their own tools and methods. Therefore it is possible to argue that they are not only the stakes but also the sites of class struggle.

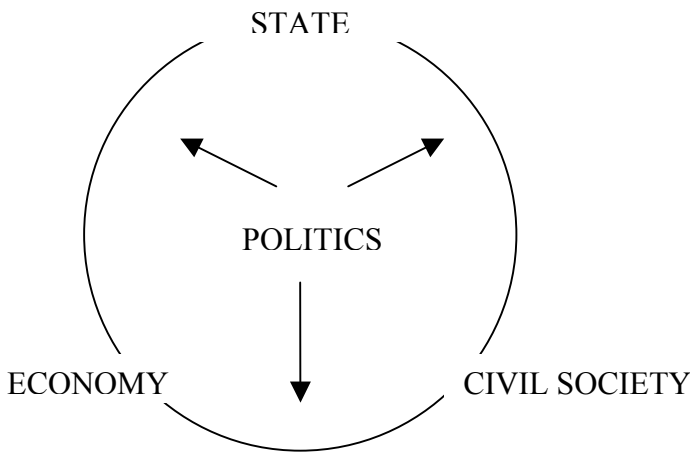
Unlike traditional Marxists, Gramsci divided the superstructure of the society into the political society and the civil society. In his classification, political society represents the state and includes the army, legal system, police and administration. Civil society consists of institutions such as political parties, church, trade unions and mass media. According to him, economic infrastructure does not determine the superstructure of the society, to a great extent, but the superstructure can affect the infrastructure as well. He argues that in case the ruling class gains the approval and consent of the society by persuading them for the political and moral values of ruling class, it can achieve hegemony, but the maintenance of hegemony requires to compromise and take account of the demands of exploited classes and it cannot be possible to mention about the full hegemony of ruling class, because of the conflicting interests of different groups within the ruling class. Besides, in order to maintain to rule, ruling class make some concessions to the exploited classes and on the other hand from their daily experiences, individuals within the society believe that the system needs some reforms even they were persuaded by the institutions, such as schools and church, that capitalism is natural and desirable (Gramsci 2007, Buci-Glucksmann 1980).

Recent discussions brings an intra-societal relationship in terms of primacy of politics, arguing that each of state, economy and society has its own separate structure and political struggle takes place within and outside them. In this regard, state is not directly run by the ruling class and do not necessarily serve their interests. Jessop (1990), argues that state and society are intimately connected and it is not separate them completely in accounts of power, but state is institutionally separate from the economy and it is not automatically operates as a simple instrument of capitalism. More than a relative autonomy, it has an operational autonomy. The state is a form of the alliances of different classes, similar to that of stated by Gramsci.

On the other side, operational autonomy of state does not mean that politicians, who are the members of different classes, may direct state

towards different hegemonic targets, since capitalists can threaten to withdraw their capital from states if its policies will not be in favor of their interests. In this regard, Jessop underlines regulatory aspect of state. State may introduce policies to widen the influences of capitalism in social life, such as education, health, culture and science, and mobilize profit seeking policies by creating opportunity for involving state-funded education and health sectors or may harm the capitalist system by using its regulatory power. Jessop argues that there has been a general shift in state policies from Keynesian Welfare Nation State to Schumpeterian Competition State<sup>1</sup> (Jessop, 2002).

Regulatory power of state makes politics the main area of struggle for allocation and redistribution of public resources. The dialectic between forces and relations of production governs economic and social behavior (Figure 2).



**Figure 2 The Primacy of Politics**

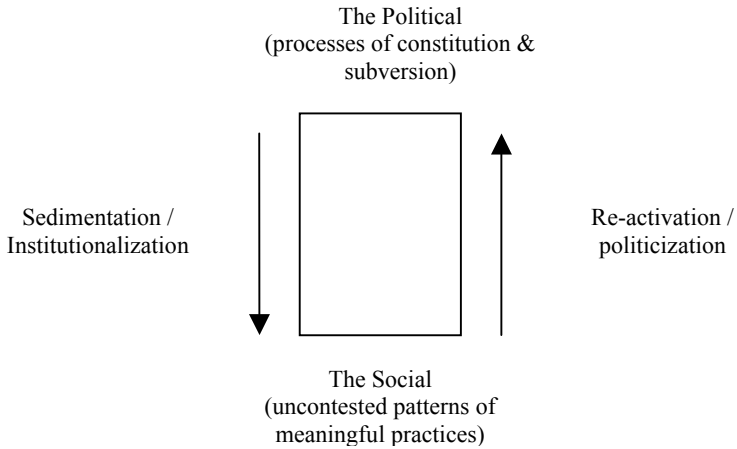
Source: Bertramsen, Peter, Thomsen, Torfing, 1991, p.7

Considering that auto-reproduction of economy needs to be supplemented by political interventions, economy is a heterogeneous area which is cracked by political struggles, rather than being a homogenous area governed by endogenous logics (Figure 3). Therefore, it has been argued

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<sup>1</sup> See for the details of the Keynesian Welfare National State and the Schumpeterian Competition State in Jessop (2002) p.55-139.

that, social and political struggles are the functional explanations of super-structural phenomena (Cohen, 1986).



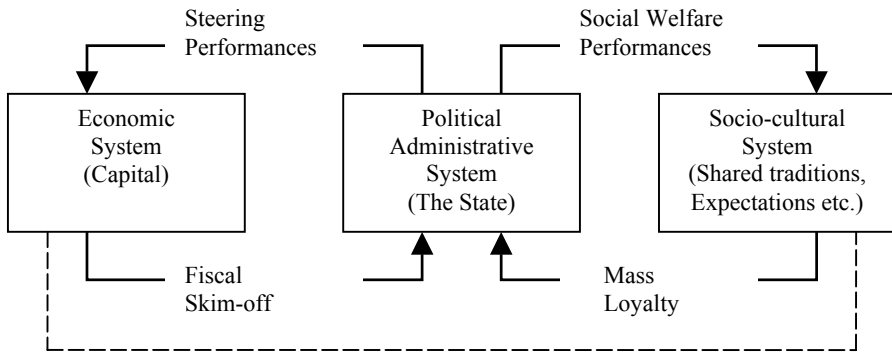
**Figure 3 The Political and the Social**

Source: Bertramsen, Peter, Thomsen, Torfing, 1991, p.30

According to the Frankfurt school, economic, political and social, as the general complexes of relations, are shaping the daily life of capitalist societies. There is a kind of hierarchy of casual efficacy and substantiality. Therefore, references to economy call up images of a hard nature-like entity to which political and sociocultural relations must adapt. Political relations seem also to have sharp and hard referents such as parliaments, laws, bureaucracies that define and limit social action in all kinds of apparently obvious ways (Pusey, 1987). Habermas' legitimation crisis theory is developed against the background of a general systems theory framework. In his formulation the system has three sub-systems.

The economic sub-system produces goods and services for profit and capital depends for its support and maintenance on the political administrative system, in other words, the state, which provides steering performance. The state steers the economy by providing favorable conditions for economic growth. Besides, it is dependent for its revenues on taxes, levied on the private sector which dependent on the fiscal skim-off. In addition to the economic and fiscal relations of with the capital, the state maintains popular assent and mass loyalty by using fiscal revenues to provide social, educational and welfare services and to support the ideology

which legitimates the whole system (Figure 4). Accordingly, norms, attitudes, values and action motivating meanings that secure conformity with political, legal and social domination in the larger system of society as a whole, are maintained in the socio-cultural subsystem. Habermas argued that a crisis may occur if any of the subsystems fails to produce the requisite quantity of what it contributes to the whole (Pusey, 1987).



**Figure 4 The Framework of the System**

Source: Pusey, 1987, p.94

Besides as indicated by Offe (1996) the state regulates economic system since it cannot fulfill its functions to provide free, equal and efficient transactions or can do so only with harmful side effects. Because,

- *there are so called natural monopolies in which (as with bridges over rivers) the introduction of competition would lead to an increase in production cost, ruinous forms of competition or ultimately underproduction;*
- *external effects appear which are not reflected by the market in the form of price signals; these might be negative effects on third party not taking part in the transaction; or the parties to the transaction might become victims of distant effects they themselves brought about, albeit at a later date;*

- *there are so called meritorious goods (for instance, in health care), whose production would certainly benefit all, but for which, due to a typically inadequate steering of preferences, there is insufficient demand, and which the market therefore supplies to an insufficient degree;*
- *there is an information gap between supplier and consumer, so that in a typical case (as with the products of the pharmaceutical industry) it is impossible for the purchaser to judge a commodity's positive or negative consumer value. Structural asymmetries between market partners can also rest upon basic differences in adaptive capacity; this is typically the case in labor markets. In both cases a formally egalitarian market relationship turns into one of power or dependence (Offe 1996; p.73).*

States' interventions take form of regulations, orders, injunctions and contractual prohibitions. However, regulations are not restricted to circumstances and those are illegitimately applied and open to interest-bound interpretations where state regulation is directed in cases of monopoly, meritorious goods, external effects, and unequal distribution of power and information. Offe (1996) argues that the more heterogeneous and individualized social and value structures become, the more an interest in regulation becomes a minority one and pluralization of these structures produces a corresponding multiplication of criteria of judgment involved in the question of which social and economic affairs or sectors should be regulated and under which standards. Therefore, it can be asserted that regulative policies of states create some economic and social reflections in both economic and socio-cultural systems.

### **2.1.2. Pluralist Approach**

Similar to class theory, one can hold power at the expense of others as Weber understands. Besides, power-holders tend to use power for their own interests, particularly for the interests of specific groups in the society. In

this power relation, state is a monopoly for legitimate use of power in a given territory. However, the decision making processes, behind the state operations cannot be explained by the domination of only one class even the state is defined as a field of power for the determination of monetary and fiscal rules (Weber, 1978). Weber defines three possible sources for domination through the use of state apparatus which are economic power (class), social power - such as prestige (status) and political power; organization (party). Parties include variety of associations from mass political parties to interest groups, like non-governmental organizations such as trade unions and associations. Considering either class or status interests, they organized for the acquisition of social power and aim to realize their will despite the opposition of others. They are mostly mix of class and status groups (Weber, 1998).

The influences of interest group on the power sharing were discussed by Weber from different perspectives. According to Weber (1978) every legal order directly influences the distribution of power, economic or otherwise, within its respective community. He diversifies economically conditioned power by emphasizing that it may be the consequence of power existing on other grounds. Social honor, or prestige may be the basis of economic power but mere economic power is by no means a recognized basis of social honor. Power may be guaranteed by legal order but it is not the primary source. According to Weber, the legal order can only be an additional factor which enhances the chance to hold power, but it cannot always secure power. On the other hand, the status order or social order within a society is directly related to economic order which means the way in which economic goods and services are distributed and used and it reacts upon. The distribution of economic power provides a possibility of transferring property from the sphere of use as wealth to the sphere of capital.

Classes and status groups influence each other (Weber, 1978). Otherwise, democracies would become unworkable if a particular interest in the society dominates others (Tocqueville, 2007). Parties reside in the sphere of power and their action is oriented toward the acquisition of social power, toward influencing social action of status groups or classes. A party may aim at realizing a program for material purposes or may have personal goals like getting honor for the leader and his followers (Weber, 1978). Generally a

party aims all of these together. Parties aim to influence the staff that can effect the decision taking procedures. Weber (1978) states that in any case, parties may show their interests, determined through class situation or status situation, but these are not purely class or status parties, these are mainly the mixture of these two but in some cases, none of these. They may represent temporary or permanent structures but in any situation their means of attaining power may be quiet varied such as money, social influence, force of speech, clumsy hoax or artful tactics of obstruction in parliamentary bodies.

A democratic state is an institutional arrangement for realizing political decisions in which individuals acquire the power to decide by means of a competitive struggle for people's vote (Schumpeter, 1974). Citizens have right to vote in free and regular elections, and people get served and may involve at some crucial stages in the decision making processes through institutions like representative agencies and use constitutional citizen rights such as free expression, founding organizations and lobbying (Dahl, 1958). Power is exercised in social relations, through the contingencies of institutions in decision making. Social formation is organized around political agenda and political agenda is controlled by dispersed group of forces. Thus, parallel to class analysis, politics is the main struggling area since it has the influences on contingencies. However, pluralist approach states that it does not always require the domination of one class on another as a result of this struggle. Political power could lead economic and social power, while it is same for social power against economic and political power. There is an interactive relationship between the organization and the class, in other words between state and society. Therefore, considering this interactive relationship, domination of a ruling class or power elite is criticized by Hunter (1953), emphasizing on the pluralism, which argues that the concentration of power is not excessive, since one group always balances the other. Hunter mentioned that policy makers have fairly definitive set of policies at their command, but the men of real power control the public expenditures for health and welfare programs with association of interest groups. Dahl (1958) supported this argument and his hypothesis of the existence of ruling elite tested fewer than three conditions:

- Ruling elite should be a well-defined group

- There should be fair samples of cases for key political decision that ruling elite should run counter to those of any other likely group might be suggested

- In such cases, the preferences of the ruling elite should regularly succeed.

Pluralism opposes that there is a ruling class, and taking all conflicting demands from the different groups of the society, state acts as a honest broker by reconciling them. Because, all classes and interest groups in the society somehow have influence on government policies and have access to decision makers, through political parties, trade unions and associations by lobbying, funding political parties, providing expertise, demonstrations or in worst case by bribing.

Policymaking apparatus is accessible to numerous social and economic interest groups and policymakers are subject to pressure from a wide range of interest groups. Especially the politicians respond to such pressures by enacting policies that accommodate best organized and most strategically situated interests, those with access to the decision-makers. As a result of openness of the policy making process, many competing interests successfully translate into fiscal policies (Pollack, 1999). For instance, pluralistic taxation policies may result in incremental development of tax revenues since political power tends to keep existing policies due to the interest group pressures. Interest groups in a society have narrow self-interested objectives which may have broad social implications such as financing of medical research, concentrating on a disease which affects an ignorable part of society or a research for solutions of global environmental problem.

Different groups among the voters represent different interests in a democratic government and may have controversial objectives. (Hillman, 2003) However, according to the pluralist approach, whatever the objective is, interest groups enter collective action to achieve the group objectives to influence decision making. Besides, it is assumed that majority voting reflects the median voter's interest and occurs when there is a consensus among the voters. Therefore, decisions taken by the representatives of majority voters reflect the majority's interest.

### **2.1.3. Influences of Globalization**

Apart from the above mentioned approaches; state centered perspectives argue that state has autonomy, but its actions are shaped by external forces within the society (Nordlinger, 1970; Skocpol, 1985). Some of these forces are regarding the state's ability to command its territory and its access for reliable and substantial financial resources. Taxation is the main financing method of state operations, but weak states which lack of power to tax and regulate the economy and to withstand the political and social challenges from non-state actors, face with the limited government. They generally fail to invest in public goods such as infrastructure, roads, legal rules for contract enforcement (Acemoğlu, 2005). These states may borrow largely in order to recover this failure but heavily borrowing may end up in a financially weaker position. Besides, strong states have power to impose high taxes and it may discourage to invest and to spent entrepreneurial effort by the citizens. Acemoğlu (2005) asserts that both weak and strong states create distortions in the allocation of resources, and consequently, both excessively weak and excessively strong states are likely to act as impediments to economic development. Additionally, through the double taxation agreements, strong states may impose power on weak states to collect taxes which comes from the overseas operations of companies located in strong countries. Besides, wealth of a society determines the state's ability to hire qualified members of society, as a result its power within the society and its relations with other states (Skocpol, 1985).

Globalization increased the relations among states and multilateral organizations and international agreements required sharing of the power. There are many social scientists discuss the influences of globalization from the political, sociological and economy perspective. Disappearance of borders weakened the control of states especially over the economy and they have been facing with difficulties to sustain tariff barriers to protect their domestic markets and producers. Most of the social scientists agreed that states largely lost power to regulate and control the power shift from governments to transnational companies (Giddens, 1990; Hirst and Grahame Thomson, 1998; Sklair, 2001).

During last two decades, Anglo-American market capitalism has been preferred in many countries. It brought deregulation and freeing of the markets into practice. Deregulation and liberalization not only strengthened

the transnational structure of market, but also increased globalization. Riain (2000) argues that there is a hierarchical relationship among market, state and society; markets organize transnational, while states organize in national level and society remains at the local level. Therefore, states offer many opportunities and incentives within and across the state boundaries to make markets under control and attract the capital since local or foreign capital invested in the country moves toward the more attractive offers, very rapidly.

The role of state has been limited to promote economic competition and accumulation and this new form of state, called as “glocal state” by some social scientist (Brenner, 1998). Glocal state aims to promote capital accumulation by linking the local to the global and creating a location ideal for accumulation within a global set of connections. Jessop (2002) discusses this process as the transformation from Keynesian Welfare Nation State (KWNS) to Schumpeterian Competition State (SCS). According to him KWNS is based upon Fordist production and consumption, regulated by the nation state. KWNS is a form of capitalist of state in Atlantic Fordist economies. Jessop defines Atlantic Fordism as an accumulation regime based on virtuous autocentric circle of mass production and mass consumption. Jessop used the term of competition state to characterize a state, aiming secure economic growth within its borders and/or to secure competitive advantages of capitals based in its borders, even when they operate abroad, by promoting extra-economic conditions that are currently deemed vital for success in competition with economic actors and spaces located in other states. Although supranational and subnational regulatory bodies started to take place and share some of its authority, nation state is still the main regulatory body in SCS.

Neo-liberal pressures of interest groups and increasing competition in global markets required efficient use of public resources, redefinition of public goods through the budget reforms, in capitalist states. Even the regulatory power of state is relatively weak due to the transfer of considerable part of power to supranational bodies like EU, GATT and GATS, always there has been an increasing pressure from the markets for deregulation and liberalization, since states still have a significant power to regulate markets and shape them by mediating global and local connections

by influencing local assets to be mobilized within the context of global opportunities to provide the capital accumulation.

## **2.2. Budget as the Fiscal Tool of State**

The nature, structure and occurrence of public finance have an impact on how the various economic and social interests of civil society will share the burden of government. Almost in all country specific cases, budget is the only tool for the execution of state operations, covering all of its legislative and economic power. Budget mainly determines the distribution of the burden of state expenditures. However, as indicated by Karaçal and Uyduranoglu Öktem (2007), starting from 1215 with Magna Carta, the first document which regulates the taxation and spending authority of the ruler, tax collection has been the main concentration area for centuries, since society obliged to pay tax for sharing the burden of state expenditures. Consequently, the budget right of the parliament, representing the society, implied the right for taxation. Taxes are the source of survival of the bureaucracy, the army, the priest and court in short, for whole apparatus of the executive power (Marx, 2000). State employs taxation on different economic activities, such as general taxes on sales or income, but also may tax specific products like alcohol and tobacco. On the other hand, state may raise tax from different interest groups such as property tax, lump-sum tax, sometimes called as “head tax”. Therefore from the public finance instruments point of view, social interests concentrate on taxes, because governments can choose the way of taxation and the distribution of cost among different interest groups. On the other side, the state needs tax revenues to finance its own activities while supporting capital accumulation by state actions (Jessop, 1990). Consequently, bureaucracy is one of the stakeholders and senior officials can follow their own interests relatively free of restrictions from dominant class (Block, 1994). As a result, the autonomy of state may require a form of alliance between state managers and dominant economic class (Miliband, 1987).

By the time being, due to the increasing responsibilities, the growth of state widened the budget right with the involvement of public spending. Contemporary public finance defines budget from both the expenditures and revenues point of view, and it is a map or blueprint for the authoritative allocation of resources by the state (Pollack, 1999). Budget, as the main financial document of a government, is not simply a document, announcing

the annual economic and fiscal targets but a series of separate policy decisions. Karaçal, Uyduranoğlu Öktem (2007) state that budget is an authority taken by the government for collection of public resources and making government expenditures. This authority is given by the parliament, representing the sovereignty. Therefore, in modern democratic regimes, budget is a contract between the state and the society for the use of economic and social resources. It is a commitment of government to meet the needs of society, and gives authority to collect tax and to borrow in the short-term and the long-term on behalf of the society.

The basic rules for government spending and general framework of its financing are determined by government budget. Budget includes an estimate of revenues and the ceilings for expenditures for a period of time which is annual, almost every time. Covering both expenditures and incomes, the design of public finance system sets how the economic burden will be distributed and thus political issues, to influence the organization of public finance and the decision making processes, get extreme importance (Pollack, 1999). Generally, annual budgets are presented to parliaments and after a parliamentary debate, become an act. Depending upon the lengthiness of the parliamentary procedures and the number of stages during the approval of parliament, the size and scope of the budget indicate the strength of parliamentary control. Schiavo-Campo (2007) underlines that, in most cases, annual budget law includes the objectives of fiscal control, strategic resource allocation, operational effectiveness, the principles of accountability, integrity and transparency, the budget preparation and execution processes and the responsibilities of whom, for what, how and when at various stages in the process, including the division of powers between the executive and legislature.

Budget has several sections, including allocations for government institutions, ministries and other central government bodies. The governing party evaluates the most probable expenditures and tries to decide whether making it would gain more votes than financing it would lose. Therefore, governments try to select expenditures with a higher vote potential than the marginal one, which is financed by revenue collection methods with lower vote loss potentials than the marginal one (Downs, 1969). Budget refers to proposed revenues and expenditures that government submits to parliament on an annual basis for the approval. After the approval, budget document

becomes a commitment for governments (Coombes, 1976). The reason behind the approval of budget by the parliament is indicated by Coombes (1976) in two ways; first, because of the wide social and economic implications of government's financial activities; second, control of most government activities in a relatively short, annual period. However, current trend implies medium term financial planning which means the preparation of annual budgets in a framework of a rolling-three to five years.

Strength of budgetary constraints also has some influences on citizens through providing and using of public funds. Public finance theory classifies budgets as "soft budget" or "hard budget". In case of a hard budget, public expenditures cannot be done if there is no money. However, under soft budget constraints, additional funds may be available if the money is spent. Soft budgets are not bindery for spending and it is difficult to provide the efficiency for the use of public funds. On the other hand, in case of a balanced budget, state's redistribution function is supposed to be limited with the tax collections and the amount of transfers. Although, the budgets supposed to be balanced in principle, in most cases, there have been deficits, which do not arise only from the excess spending; but also inadequate tax collection. Deficit has always been compensated by borrowing. Governments may prefer to finance deficit by borrowing instead of taxation, and in case of deficit financing, the cost of current spending may be transferred to future tax payers through borrowing, which also causes an easing opportunity for the current tax payers.

Redistribution capacity of state increases in usage of financial transactions either by generating funds through financial markets or directly from banking system. Besides, as a political standing, instead of having a deficit, a government may choose to employ a budget surplus by having surplus revenue. As stated by Hillman (2003) depending on the ways of generating surplus, governments may have opportunities to reduce the tax ratios or debt burden, both of which redistribute the benefit and burden of public spending. In case of early repayment of government debt, future tax payers will benefit; while in case of the reduction of tax rates, current tax payers will benefit.

The size and structure of the budget is a function of the ideology of state. A capitalist state imposes a small budget since state is supposed to be small and has to serve only to meet the basic government functions. On the

other hand, socialist state is directly based on redistribution and some of the production that is determined by the political authority is always set aside for future production (Swedberg, 2003, Andersen, 2007). However, apart from the ideology, conflict is endemic to budgeting as stated by Rubin (1999) because of the limited resources. Most of the time, budget actors cannot agree on the key policies that are made through the budget process such as who will carry the tax burden, and who will benefit from the public expenditures or transfers or whether there will be deficit or not. In democratic governments, the conflict starts from the elections and voters vote to redistribute income and wealth to themselves from the minority voters. Therefore voting somehow acts like a means of redistributing income or wealth (Shapiro, 1971, Dixit and Londregan, 1998, Fleck 2001). In a society where elderly peoples held the majority, social security taxes and benefits to social security recipients may be more preferable. Majority voting regarding public spending on public goods could affect the distribution of income and wealth within the society. Some people may pay taxes while not benefiting at all from the public goods chosen by the majority (Hillman 2003).

On the other hand, budget is not the only way for public expenditures and revenue rising. Almost every time, there have been facilities developed by governments, such as extra-budgetary funds, ear-marked revenues and expenditures to allocate resources or to avoid from budgetary constraints while financing the spending. Under these circumstances, budgets may be inadequate instruments for control of extra-budgetary facilities, autonomous or semi-autonomous public agencies, funds and accounts.

### **2.3. Redistribution Function of State Budget**

The state, market and society are embedded in each other and constructed by their interactions with one another (Riain, 2000). The structure of state determines the way of intervening in the markets and the relationship with the society (Musgrave, 1998, Desai, 2003, Kaul and Conceição, 2006). State determines the public needs and shapes interrelation between public expenditure and revenues. State has a supreme power in a socialist economy and a strong supervisory and instructive position in centrally planned economies. In a Keynesian economy, state actively involves in the economic activity and directly intervenes in the market dynamics, thus state became bigger and stronger. The needs of society and

the level of welfare are the determinants for the size and the redistributive power of state (Coughlin et.al 1990). Expenditures and revenues create different social effects, by providing benefit to access public services and by creating deterioration in wealth (Musgrave and Peacock, 1964) and form a deviation in economic and social life.

The main policy tool for the execution of state's redistribution function is the budget. Comprehensiveness of budget not only strengthens the capacity of government and leads better fiscal outcomes by monitoring all fiscal operations and managing effectively, but also increases state's redistribute power. The existence of off-budget items, indexation of spending or entitlements with parameters fixed by law, mandatory spending laws or revenue earmarking laws, the use of contingent liabilities and public guarantees weaken the power of budget, affect future budget allocations and take precedence over future decisions (Von Hagen, 2002). Greater government activity requires greater ability of revenue rising and public spending (Downs, 1969), consequently, government expenditures increase, remoteness of government actions increase. Providing public services become more sophisticated and some measures need to be taken for the assurance of public funds to be spent for the social needs. However, these kinds of mechanisms increase the cost of public services; require a greater state apparatus, with complex fiscal policies, which involves taxing and spending power of state to change the economic and financial situation of the citizens such as the level of income or employment. In case of excess taxation, aggregate demand within the society may decline. On the other hand, excess spending may increase the aggregate demand. Therefore, as indicated by Robinson et. al. (1969), government may stimulate or depress national income by merely altering its rate of taxation and spending, even in case of a balanced budget. The rising of welfare state started to change the policies of state, both in theory and in practice. Due to the increasingly specialized division of labor, high productivity, high living standards, shifting from agrarian to industrial society, citizens need more regulation, more control and intervention as emphasized by Offe (1996); accordingly, government undertakes more responsibilities.

Redistribution function of budget has a categorization of changing social power relations. A social power relation between two parties involves a particular asymmetry; one party has the upper hand and able to make the

other's resistance to its own directives, and can thus dissuade the other from resistance or compel it to desist from it, if required. Social power relationship always entails an explicit or implicit sanction which is executed in case of the requirements does not meet. They exist wherever some human subjects are able to lay routine, enforceable boundaries upon the activities of other human subjects control over resources, allowing them to remove the subjects of outstanding human values (Poggi, 2001).

Redistributive effects of budgets influenced in different ways from automatic stabilizers or discretionary stabilizers. Automatic stabilizers, such as income tax, may create changes in the financial situation of citizens or interest groups, without changing the tax rates. Discretionary fiscal actions create influences by changing the tax regime or spending laws. Policy makers may hold spending constant and change taxes, or hold taxes constant and change spending, or change both taxes and spending (Robinson et al., 1969). Spending trends, depending on the commitments of the government and political expectations, may result in tax increases in the future. Politicians and budget officials seek to stabilize tax burden and they may execute expenditure reductions. Although both the politicians and budget officials aware that the income tax has enormous capacity to raise revenue, it has not been preferred to maximize the state's revenue, except crisis period, because consumption taxes are easy to collect, widened among the citizens and do not require a direct transfer from specific sectors or groups in the society. In order to minimize the pressures of interest groups, politicians are irresistible to use income tax for political purposes by introducing legislation to reduce taxes for favored interest groups or implementing public policies through tax preferences that reduce taxation for favored investments or programs. Pollack (1999) evaluates the politics of taxation as politics of accommodation which means distribution of benefits to supporters and constituent through the tax code. Especially, during the fiscal crisis periods, ruling party becomes under strong pressure from groups representing high-income tax payers to reduce the progressivity of tax system or to redirect spending priorities in ways that are more beneficial to high-income groups. On the other hand, even during the high growth periods, high-income tax payers propose to reduce tax ratios to prevent ruling party to increase public expenditures, or to spent for supporting the industrial development.

Including taxation, almost all of the fiscal decisions are being determined as an outcome of a distributional game played by competing fiscal interest groups. On the revenue side, fiscal decision affects both the average tax burden faced by different interest groups and on the spending side, decisions have some distributional implications with different spending programs to specific interest groups. Different social groups put pressure in different ways and try to avoid taxes, reflect them to other social groups, to increase their use of public goods and benefit from the transfers. Interest groups exert political pressure on decision-makers, but the influence is not necessarily proportional to the voting power of interest group (Chernick and Reschovsky, 1990).

Redistributional influences of public finance may not be limited with short time periods. State may finance its activities by borrowing, and other than the immediate effects of spending, citizens may not observe any negative effect of borrowing because of its long maturity which may exceed 30 years. According to Ricardian equivalence theorem, the anticipated future burden of taxation is equal to the value of debt. Taxation is needed to service and redeem the bond and the current taxpayers rationally perceive that their wealth will be reduced by the future burden of taxation. If current and future government expenditures are held constant, a change in current taxes with an equal and opposite change in the present value of future taxes leaves the equilibrium real interest rate and the consumption of individuals, hence aggregate consumption unchanged. This means that government budget deficits have no effect on equilibrium consumption and the real interest rate; however the government redistributes the tax burden among the generations with the tax and borrowing policies. Accordingly, power and status are redistributed in favor of current generations by benefiting the future tax payments during the current period and increasing the consumption. Government borrowing has intergenerational effects, unless the benefits over time precisely match the burden of taxation on each generation.

On the other hand, because of the interest payments and the principal repayments of the outstanding debt, there may be transfers to lenders in the short term. In case that state borrows from external creditors, there will be some cross border influences of state's borrowing. First, savings of the foreign investors were used by the current generations for investments or other expenditures. Then the coming generations transfer some of their

wealth to foreigners in their period and in some cases they cannot even benefit from the goods and services which were financed by external borrowing.

Due to the increasing cross border relations and globalization, the argument that public finance is traditionally a part of sovereign jurisdictions and unaffected by the system outside the national borders, is no more adequate. Taxpayers who reside and pay tax in one jurisdiction may receive documents for income origination and they already taxed in another. The issues regarding the overlapping taxation create a conflict and these conflicts have been resolving considering either the residency of the income recipient or the country of the source of the income (Musgrave, 2006). States may involve in subsidizing cross border operations of multinational companies. Through the sovereign wealth funds states may even invest in sovereign borrowing instruments of other states.

#### **2.4. Power Struggle in Budget Processes**

The main power struggle, occurred in the budget process, is between politics, representing the taxpayers, and the bureaucracy, representing state or the status-quo. Bureaucratic organization is vital for the existence of state, considering the size and sophisticated structure of state apparatus (Weber, 1978). However, an individual bureaucrat has no significant power and cannot struggle out of the apparatus; within the big picture, he is only a small gear in a huge mechanism unless he is not at the very top. From the ruler's perspective; bureaucratic organization is technically the most developed power instrument in the hands of controller. Politicians are equipped with the power of legislative initiative and have right to remove bureaucrats. Weber (1978) indicates that this superiority makes bureaucracy secret keeper for its knowledge and intention to increase its safety. For instance the treasury officials of Persian Shah made a secret science of their budgetary art and use a secret script. The concept of "office secret" was the special invention of bureaucracy.

##### **2.4.1. Politics and Bureaucracy**

Politicians undertake a reconciliation function, thus overreaching the specific conflicts of interest between organized groups and providing some programmatic directives and priorities (Offe, 1985).

Bureaucrats choose to work for government generally for lower salaries compared with their private sector counterparties. Bureaucrats can provide benefits or rents in the form of low effort and stress, low workload and other benefits associated with on-the-job quality of life and they cannot go bankrupt and they have a guarantee for life time career (Hillman, 2003). The struggle for power through the state apparatus may result in a more strengthened state with more strengthened utilities. Besides, civil servants, employed by states to execute public policies, are one of the important parties in the power relations set within the state.

Bureaucratic organizations has always been used for their technical superiority and having the knowledge of files and other advantages like continuity, precision, unambiguity to help bureaucracy to be in a monocratic position. Bureaucratization offers the optimum possibility for carrying through the principle of specializing administrative functions according to purely objective considerations. Once fully established, it is nearly impossible to destroy the bureaucracy, and it becomes the means of transforming social action into rationally organized action. Rationally organized and directed action (*Gesellschaftshandeln*) is superior to every kind of collective behavior (*Massenhandeln*) and also social action (*Gemeinschaftshandeln*) opposing it (Weber, 1978). Therefore, bureaucracy itself is a power instrument of the first order.

On the other hand, it is argued that the main objective of politics is to serve as many of the specific demand inputs as possible, given the limitations of fiscal and other resources so as to satisfy a maximum of special interests (Offe 1985). However, sophistication of the rules and procedures behind the use of budgetary power increasingly shifts authority from politicians to bureaucracy. Officials collect budget requests, analyze, cut and submit a proposal to the legislative body. Decisions on spending are taken under the consideration of expenditure projections of continuing policies. Political consideration of budget is mainly concerned with the use of public resources, rather than the objectives of the outputs of expenditure. Therefore, when there are demographic effects on the cost of past commitments and the various social and political pressures to increase expenditures, it is generally difficult to keep expenditures within the confines of norms due to the life-expectancy of the government.

Using the relative advantage of having knowledge on the working of state apparatus, bureaucracy fights to gain its own means, and prefers a poorly informed and powerless parliament. Only the expert knowledge of private interest group in the field of business may challenge to the expert knowledge of the bureaucracy (Weber, 1978). Weber's ideal bureaucracy solely serves the public interest but there is a difference between the aims of bureaucracy and the voters, or the parliaments as the representatives of voters. Therefore, the execution of public policies may not be supposed to result in line with the legislature preferences one to one, since self-interest behavior of the government bureaucracy may result some deviations. Accordingly, bureaucracy takes place in the power relations by serving for the fulfillment of their obligations to taxpayers, social integrity and better outcomes for the society.

On the other hand, parliaments, representing the political pressure on governments, are not likely to be at their most effective power in dealing with medium-to-long term plans. Parliaments' formal power comes from their legislative role, and spending permission set by annual budgets requires legislative authorization. In practice, long-term expenditure plans are not sufficiently final to be preserved in legislation and even the figures mainly reflects firm commitments of previous arrangements. Therefore, legislative acts for budget laws carry out without examination of the details and the discussions only cover a bite. Parliamentary influence on the allocation of resources remains formal, nearly in all countries, governments' expenditure proposals are accepted with little or no amendment, the only function of legislative body is to review the proposal and reject if necessary (Else, 1976b, Rubin, 1999). Financial plans depend on the projected developments of revenues and expenditures over the period and relate with the overall macroeconomic trend (Else, 1976b) other than the politically determined priorities of the society.

#### **2.4.2. Principal – Agent Problem**

Limitations such as having inadequate information by decision takers, pleasing the citizens or making self-interested decisions by elected political representatives or bureaucrats result principal-agent problem (Hillman, 2003). Public choice theory indicates that the politicians and bureaucrats pursued public and private agendas, together as the self interest actors (Buchanan and Tullock 1962, Chang 2003, Kaul 2006). Consequently,

principal agent theory of Niskanen (1973) supports the argument by emphasizing the growing state apparatus and the state agents are the masters than the servants.

Increasing of public spending is only possible under the condition of creating resources either by taxation or borrowing, however elected political representatives has a motivation to reduce the tax level. Therefore, as Hillman (2003) states, the differences in objectives of principal and agent or imperfect monitoring and control of the agent by principal, principal-agent problem rises and this problem may result in higher public expenditures, higher taxation and higher debt level.

Usually, bureaucracy and politicians are jointly responsible for definition of the economic and fiscal policy. The bureaucracy is responsible for formulation of the expenditure program and government budget as a whole, consistent with the broad directions given by politicians; and legislature is responsible for approving the expenditure program and monitoring the execution of budget (Schiavo-Campo, 2007). But, politicians have different incentives and horizon comparing with bureaucrats. They have allegiances with specific geographic constituencies and social groups. The politicians aim to channel funds to specific purposes and let them to affect the composition of spending in favor of goods and services that are more easily targeted towards specific groups (Herrera, 2008). On the other hand, politicians may not be knowledgeable enough about every spending item in the budget and as a necessity, authority has been delegated to bureaucracy, this creates a principal-agent problem.

*Political monitoring is impeded if civil servants in government bureaucracies have longer job tenure than elected politicians. The longer job tenure allows career bureaucrats to become better informed than politicians or political appointees about the inner working of government bureaucracies, in particular about the behind-the-scenes mechanisms that determine how public spending is dispensed. Because of career bureaucrats' longer tenure and informational advantages, political appointments head the bureaucracy for information, including*

*information about the resource needs of the bureaucracy. Elected representative, and representatives' assistants and support staff, often rely on government bureaucracies for information (Hillman, 2003:220).*

The political representatives of taxpayers supposed to control and monitor the government bureaucracy. But, because of the informative dependency, elected political representatives has limited power for maintenance of the control and monitoring functions. Consequently, asymmetric information led bureaucracy principal and politicians become agents and the principal-agent problem between taxpayers and bureaucrats is supplemented by the principal-agent problem between bureaucrats and the politicians (Hillman, 2003). Due to the asymmetric information, the agent knows what it has been done, while principal cannot involve in the shaping of outcome.

### **2.4.3. Struggle within the Bureaucracy**

Bureaucratic structure is essential for the execution of decisions taken in case of the involvement of different parties. It is impossible to implement public policy without bureaucracy. Bureaucracy, authorized with administrative power, collects tax and other revenues, and makes public spending.

A considerable portion of budget expenditures is directly used in order to provide existence of this bureaucratic structure and state itself. Bureaucracy tends to increase public spending, in order to widen the impact area. Increasing urbanization and development of welfare state expanded governments' role and caused a growth in government spending. Traditionally, the amount of demand for expenditures always exceeds the amount of revenues. Therefore there has been an increasing demand for control over spending.

Spending control requires setting the priorities which results in the involvement to budgetary decision-making processes by different parties, interest groups, regions who often disagree on who should get what from the budget (Rubin, 1999) and who should pay. Politicians may argue to change the share of different programs or tax breaks, and the arguments raised by the politicians are emotionally influenced by their social status and reflects

the interest of the region or social group, they belong to. On the other hand, budget officials recommend the control of ministerial spending. Therefore, within the bureaucracy there is a struggle between budget officials and spending agencies which often play games to avoid from any cut off from their proposals and exaggerate their needs (Rubin, 1999).

#### **2.4.4. Interest Groups and Bureaucracy**

The main struggle in budgetary decision making is between politicians and the bureaucrats. However, pluralist political theory tends to set relations with the existence, strength, and particular articulation of interest organizations. According to Offe (1985) the concrete shape and content of organized interest representation is a result of interest plus opportunity plus institutional status. Therefore, while evaluating the citizens and interest groups as the influencing actors of the budgetary processes, their political-institutional status should be noted, since it is not the case for any interest group to involve in decision making processes. He explains the change in the interest representation by changes on the level of values and ideologies and strategic positions and social power of groups, in addition to the level of political institutionalization of interest groups. There exists some historical variability of the relative importance of ideological, economic and political parameters, since these are jointly determining the shape and content of interest organizations. Besides, state's policies that provide status to interest groups assign certain semi-public or public functions to them, and regulate the type and scope of their activities are the factors affecting on-going change in the system of interest representation than factors that have to do with changes of either ideological orientations or socio-economic opportunity structures.

Interest groups may represent the social power of capital or labor, resting on the ultimate sanctions of economic obstruction or withdrawal. On one side, capital can threaten to discontinue its purchases of capital goods and labor, on the other side labor threaten to withhold labor power. However, capital can bring its obstructive power to bear even if it is not organized as an interest group, but withdrawal of labor power can only function if it is practiced collectively. Labor's interest is divided into different strata and segments, and workers do not have an unequivocal standard of rationality by which they can optimize among conflicting ends. Labor organizations are effective only to the extent that they manage partially suspend the ties of

their members to the environment of individualistic monetary incentives. Conversely, capital organizations merely state power positions that are already established and interest definitions that are already decided on (Offe, 1985).

In order to reduce the tension coming from the struggle among different organizations, the relations between interest groups and the state are institutionalized and legislated in most democratic regimes. In this regard, organizations such as Economic and Social Council in Ireland are assigned to facilitate direct participation of interest groups in budgetary processes. Offe (1985) underlines the institutionalization of similar bodies in Germany starting from early sixties<sup>2</sup>. He states that none of the changes in the state/interest group relations are inspired by motives of the liberal-pluralist doctrine of representative democracy, but because of functionalist nature; to facilitate the resolution of distributive conflict, to obtain more reliable and predictable knowledge needed by policy maker, to relieve the state bureaucracy from the veto power of shortsighted interest groups, to combat inflation, recession and fiscal crisis. Therefore, Offe (1985) asserts that there is a non-ideological reasoning on the institutionalization program of interest groups. In this regard, institutionalization of interest groups' status has a function that interest groups accept certain constraints and restrictive obligations, but on the other hand, these groups gain advantages and privileges.

Interest groups often want to have more influence over budget priorities and allocations. The influence of interest groups generally are not directed to the budget officials, they can create pressure on spending ministries to affect the priorities among the programs. In order to manage the

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<sup>2</sup> Consultations between government officials and interest group representatives became a routine practice, starting from 1960s in Germany. Programmatic notion of *Formierte Gesellschaft* was launched in early sixties; Council of Economic Advisers (*Sachverstaendigenrat*) was instituted in 1964. As an informal mode of negotiation on the policy goals suggested by government *Konzertierte Aktion* was legislated in 1967. *Anhoerungen* committees for consultation with interest group representatives were resorted in late 1960s. Economic and Social Council was legislated as a constitutional order in 1971. *Verhaltensregeln*, code of honor for the members of parliament was adopted in 1972 and all interest groups were required to register with the chairman of Bundestag. (see Offe (1985) p.232-236 for the details and all institutional changes to provide involvement of interest groups in decision making in Germany.

conflict among bureaucracy, politicians and different interest groups, some budgeting techniques were developed. Some of them limit the scope of conflict while some other obscures the issues over which controversy may occur, and others discourage those who would challenge the status quo. Decision makers may allocate resources across the board, to avoid comparison between programs or ministries or interest groups. Resources are distributed to provide every party to get little and no one feels left out. Administrators may take their programs out of the most intensely competitive part of the budget and put them into parts of the budget where they have fewer or no rivals of funding (Rubin, 1999).

Incrementalism<sup>3</sup> is the most widely used technique to avoid conflict among different interest groups and the government. The amount allocated previously increased by a formula and probably will not be questioned by competing parties. Consequently, the shares of ministries and programs do not change even the allocated amount may differ. In general, the most significant determining factor of a new year's budget is the previous years' budgets. Many items are inherited from the previous year and once a project and program included in the budget, it becomes part of the budget base. There are very limited changes both in terms of allocations and the programs, comparing with the previous year. Budget base is protected and this creates a disadvantageous position for the new claims. Fiscal decisions of state usually take the form of small incremental changes either in taxes or expenditures (Chernick and Reschovsky, 1990). Therefore, the focus of the

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<sup>3</sup> In general, policy makers allocate next year's budget according to the allocations, they made last year, and this is called as incrementalism (Wildavsky, 1964). Incrementalism is the use of a formula to allocate budget increases. "Non-decision making" means government's not making decisions or re-opening decisions made in the past. "Decentralization" of budgetary policy making let government entities to make comparisons among items within a program or ministry and ministry itself has some authority on its budgetary decision making processes. "Norms" differs from country to country and in some cases complaining or making comparisons invite retaliation and negatively affects the decision makers, so ministries concentrate on their own programs. "Obscuring interest" refers to have little knowledge about the details of the programs in the budget, therefore in a case that it is difficult for individuals or analyst to understand or to calculate who benefits from and who pays for no one makes demands on the budget. "Rabbit gardens" is allocating a small amount of money to legislature like creating a vegetable garden for rabbits to secure the main garden. "Escaping competition" refers the programs that have their own resources or earmarked revenues. "Consensual bargaining" includes to find a common ground for an acceptable solution.

budget rarely changes and the beneficiaries are generally same. Incrementalism reduces the competition for scarce resources and eases the political conflict (Schick, 2008).

## **2.5. Public Goods as an Instrument to Change Power Balances**

States are organized in the interest of the domestic economic system, not just through the legislation but also facilities of its executive power; such as changing the structure or influencing the spending patterns of the public. States commit huge flow of public resources, through taxes to the construction of infrastructures useful to business sector and use its power to lower production cost or to provide them markets. Besides, state may secure credits lower than market rates, incentives or subsidies, pay for their products at higher than market rates, entered into contracts with them on favorable terms, financed their export drives, underwritten their research and development costs, exempted them from fiscal and other public obligations. These type of positive interventions aims to achieve industrialization and strengthening of capitalist development (Poggi, 2001). This means that depending on the size and the development of the market, state's intervention in the distribution of social products is the key mechanism since it can marginally modify power relations, existing in the market. In this regards, to some extent, to create a market for special relevance to economic elites, state minimizes its operations in some sectors which has known as a part of state's core activities, such as education and health.

On the other hand, according to Coser (1976) The unequal distribution of resources makes redistribution mechanism more important since it helps the transfer of social power and status among different social groups, and the power that is constructed on state's fiscal operations becomes a power from agency more than a form of structure. Because of the scarcity of resources, having that resources can be turned into power and may involve the control over financial means. Davis and Moore (1976) put emphasize on this issue by defining a sequence that first some resources have some constraints and limits and become valuable, later distributing of these valuables according to positions become a part of social order and gives rise to stratification.

Governments do not allocate specific revenues to specific expenditures. One of the reasons is the collective characteristics of the benefits gathered from the expenditures, like national defense. Each citizen

benefits whether or not he has paid. This preference bears a burden on the citizens who pay tax; on the other hand, it reduces the cost of the financing of collective benefits. Another reason of this political decision for not allocating specific revenues to specific expenditures is to redistribute income. Downs, (1969) states that through this mechanism, poor citizens can have an opportunity to get more benefits than those they can afford. Besides, governing party may allocate public funds through spending for specific purposes and transferring directly to specific interest groups. However, it is a fact that selectivity is possible only among the spending areas which are determined according to legislative regulations, and taxes may be collected in line with the legal authority taken by the parliament. While taking decision for a new spending program, in addition to economic and financial costs, there is always a social and political cost to raise the required funds for the public provision of goods and services. Therefore, decision for the provision of goods and services by market sector or public sector has been a critical issue for the governments. On the other hand, there are some goods and services which cannot be provided from market sector. Samuelson (1954) calls these types of goods and services as “public goods”. Contrary to common misconceptions, public goods do not mean goods provided by the public. Public goods may be supplied by the market sector while private goods may be supplied by the public sector. Pure public goods are characterized by three criteria, which all should be met simultaneously; non-rivalry<sup>4</sup>, non-excludability,<sup>5</sup> and externalities<sup>6</sup>.

The usual examples for public goods, provided by public sector are lighthouses, street lights, national defense, vaccination programs and dams while GPS navigation system, and public art (such as park concerts) may be provided by market sector. No one can be excluded from these goods and services. The consumer benefits irrespective of the amount he pays for the cost of provision. Governments provide public goods, and the quality and

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<sup>4</sup> The cost of extending the service or providing the good to another person is (close to) zero, without any additional marginal cost to people who consume.

<sup>5</sup> Nobody can willingly exclude himself and it is not possible to exclude anyone from benefiting a good or service (positive externality), or paying its cost (negative externality).

<sup>6</sup> Imposing of costs or benefits on others outside the marketplace and effects can only be partially reflected in prices and the market transactions.

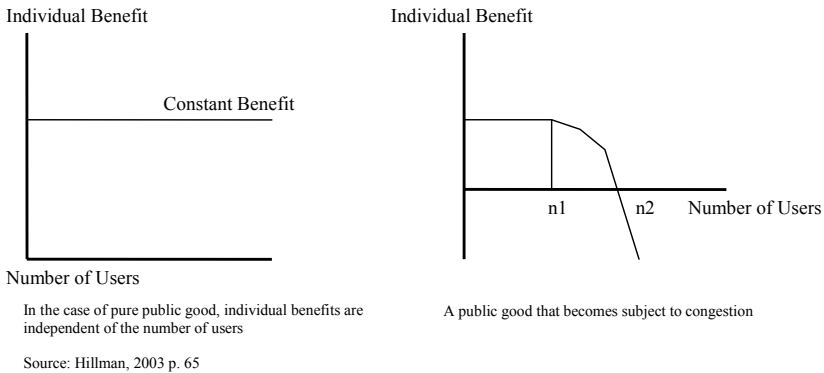
quantity of them are determined through governmental decision-making processes. Therefore, goods and services such as education and health are evaluated as private good with externalities; even there has been no change in its characteristics.

Offe (1985) emphasizes that one of the methods for political control is transformation of the production and distribution of certain goods and services into public goods. Similarly, Else (1976) argues that governments redistribute income through the budgetary processes such as making payments to the less-well-off citizens financed by taxes or other levies on the rest of the community. However, cash payments for less-well-off citizens or supporters of governing party are not a widely used way of redistribution. Governments generally finance or help to finance the provision particular goods and services to ensure that inadequate means do not unduly restrict their users' enjoyment of them. Therefore, in addition to regulatory and operational roles, the state, as the political authority, undertakes the role of being an agent of redistribution, and the use of public goods and the decision for determining the public goods provide a tool for the implementation of redistributive policies.

Public goods are directly influenced by political or ideological structure of state. For instance, as indicated by Swedberg, (2003) socialist state is directly based on redistribution, all goods are considered as public goods, and some of production is always set aside for future production, and the political authority decides the size of this part. On the other hand, Schick (2008) underlines that in a democratic regime; the state is defined principally in terms of the financial security it provides households through income support schemes and the life opportunities it gives citizens through enhanced education, health and other services. Incentives and horizons of politicians and budget officials are different, and during the preparation of budget, in deciding the expenditure levels, composition and definition of expenditures in macro terms, politicians involve in the process. The reduced fragmentation of budget process reduces the political representation, however the transparency and predictability is essential to lead better budgetary outcomes (Herrera, 2008). Depending on the dominance of the budget officials and politicians the budgets may have different structures. In case of the dominance of bureaucrats, budget shows incremental characteristics in terms of allocations and programs. On the other hand, in

case of dominance of politicians, budget may be subject to dramatic structural differentiations especially in terms of determination of the public services and the definition of public goods.

Public goods may be pure or impure as indicated by Hillman (2003). In general, public finance theory refers to pure public goods when referred to public goods. A pure public good provides the same level of benefit for everybody. However, the same public good may be impure due to number of users and congestion effects. Therefore, individual benefit may decline from the use of impure public goods, but the availability of public good remains same for everyone. Samuelson (1954) asserts that very limited number goods and services, like national defense, may be treated as pure public good and all other provided by public sector either may be considered as a mixture of private and public goods, or private goods. Education, health, the courts, public defense, highway programs, police and fire protection have an element of variability in the benefit that can go to one citizen at the expense of some other citizen.



**Figure 5. Individual Benefit from Public Goods**

Source: Hillman, 2003 p.65

On the other hand, as shown in Figure 4, if  $X$  quantity of private good is available for consumption of  $n$  people, in case of the consumption by an individual with  $x_i$ , the available quantity of private will reduce accordingly.

$$n$$

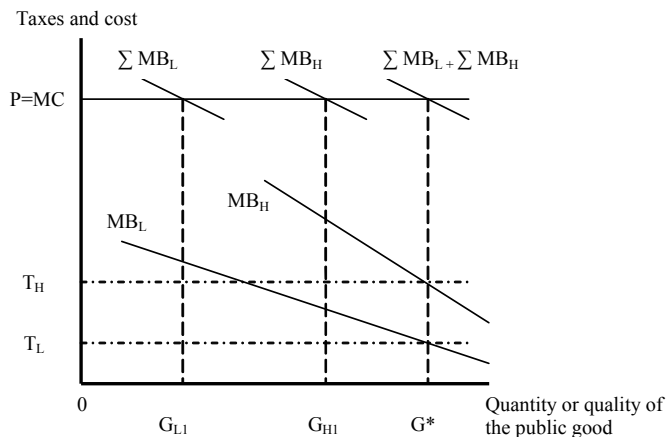
$$\sum_{j=1} x_j = X$$

$$j=1$$

However, when  $n$  people benefit from a public good, individually with  $G_i$  or collectively with  $G_c$  the amount of public good remains  $G$  for everyone. Therefore;

$$G_1 = G_2 = \dots = G_n = G$$

Nevertheless, it does not require that, even in case that a public good consumed collectively, the individuals' benefits may differ. Besides, one can benefit more than the other, even the supply is same and/or the individuals value public goods unequally (Hillman, 2003).



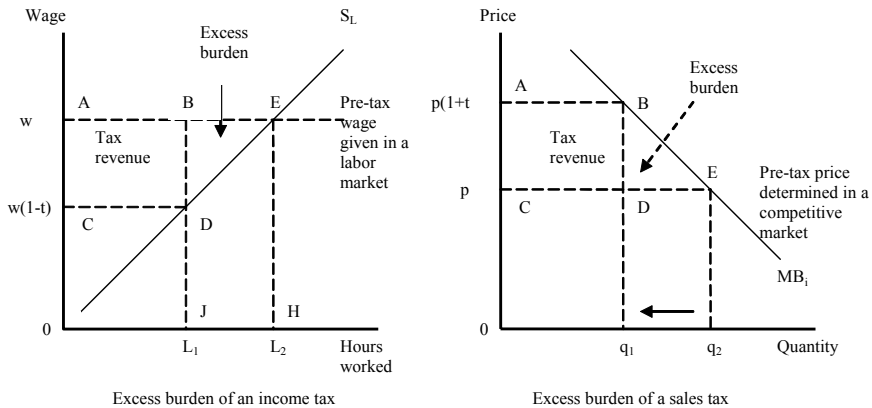
**Figure 6 The Efficient Lindahl Solution**

Source: Hillman, 2003 p.122

Due to the specific choices of different interest groups, people want to ensure their involvement in the cost of public expenditure they want through the tax payments. As shown in Figure 5,  $G^*$ , efficient Lindahl outcome, which keeps everyone in one group and determines the efficient consensus quantity where the combined marginal benefits of the entire population of low and high benefit users are equal to price  $P$  and costs are shared with low benefit users paying  $T_L$  per unit and high benefit users paying  $T_H$ . For this reason, high benefit group wants large spending, while low benefit group wants low spending, because of the sharing the cost. However,  $G^*$  is unattainable because of inability to distinguish between low,  $G_{L1}$ , and high benefit,  $G_{H1}$ , users in a combined jurisdiction, low benefit users may be better off financing and receiving  $G_{L1}$  in a separate jurisdiction. Adversely,

high benefit users similarly better off financing and receiving  $G_{HI}$  in their own separate jurisdiction than remain in a combined jurisdiction that does not accommodate for their preferences (Hillman, 2003).

Public goods can be financed by taxation, however recent public finance theory suggests financing by user prices, rather than taxation. On the other hand, user pricing requires identifying the benefits of interest group but in most cases it is inapplicable.



**Figure 7 Excess Burden of Tax**

Source: Hillman, 2003 p.129, 138

Deciding on the goods and services whether it is going to be financed as public goods has a vital importance on determination of the budgetary burdens. In this respect, the questions like “who will benefit?” and “who will pay?” need to be answered. Additionally, equitable distribution of tax becomes important to share the burden of public goods in a balanced way among interest groups. Accordingly, another question arises “who will pay more?” or “how much more?”. These questions make public goods as a politically important matter since voters want to maximize their benefits by paying least cost; accordingly politicians tend to rise the public spending as a proportion of national income, as identified by Adolph Wagner in 1880s (1958). According to the Wagner Law, social welfare actions encourage voters and government leaders to redefine the concept of public goods due to the declining quality in health, education, transportation, environment and

other sectors, and the increasing cost of programs and policies. On the other hand, majority of the citizens are not part of the traditional membership-based organizations and they try to ease the burden of government expenditures by limiting their participation in the financing of them or increasing it to get benefit. Accordingly, redefinition of public goods has been the interest of politicians and became an important determinant of the decision making for redistribution through the state budget. Chapter 4 discusses the general characteristics of public goods and in order to determine the scope of the coverage of state budget, re-classifies public services offered through the budget in Turkey, considering the theoretical basis and international classifications.

Next chapter focuses on the budgeting practices in Turkey and decision making mechanisms with respect to theoretical background stated in this chapter. Turkey's budget preparing and executing experience involve a unique redistribution process because of the economic crisis and political turbulences in last three decades. Besides, a significant breaking point occurred with the introduction of Public Financial Management and Control Law in 2003. In parallel to international practices, budget cycle and the way of budgeting changed drastically, but also created a limitation on the budget data due to the changing classification.

## **CHAPTER 3**

### **BUDGETING IN TURKEY**

Any decision taken by the government on the execution of state's economic power has reflections in the state budget. Disputes behind the decisions about taxation and spending lie in the characteristics of political and bureaucratic decision making mechanisms of the budget preparation. As Rubin (1999) stated, budget process itself is some sort of a system of checks and balances, of shared power between institutions of government, to avoid from the hasty action and ensure participation of relevant parties. However, the existence of different parties brings conflict into agenda since the emergence of new interests and new demands may increase the level of tension in budgetary processes. Different government institutions or interest groups may block other's proposal. Dispersed roles and responsibilities in the institutional framework of Turkish budgeting system is a striking case for analyzing power relations among different government entities and interest groups. Similar to international practices, in Turkey, the institutions and procedures of budgetary processes are defined by different laws, starting from the constitution. This chapter gives a descriptive outline of budgeting practices in Turkey and explores the institutional and conceptual framework of the budget preparation and execution in Turkey. In this respect, considering that annual state budget is a legal document, first, the legal perspective which budget cycle works is analyzed. Besides, the power relations mainly between politics and bureaucracy are discussed, considering the theoretical background stated in Chapter 2. As content and the size of the budget indicate its redistributive power, developments in the scope of budget for the period of 1980-2003 is also explored. On the other hand, considering that the redistributive measures are implemented in line with the appropriations and revenues listed in the annex tables of budget, the budget classification is analyzed in this chapter. Therefore, due to the change in the budget series, with introduction of Public Financial Management and Control Law (PFMCL), numbered 5018 and dated 2003, this study concentrates on the 1980-2003 period in terms of data analyzing, however

this chapter covers the changing rules and roles in the budget system after PFMCL, in order to create a basis for the discussions on the new regime and its effects on the power relations. Finally, changing structure of budget mechanism under the global influences, for the period of analysis is also discussed.

### **3.1. Legal Framework**

In order to explore budget cycle and analyze power relations around state budget, understanding of legal structure has critical importance. There are number of legislative regulations which determine the principles of budget preparation and implementation. On the other hand, it should be emphasized that even budget itself is a law, preparation of budget law is determined in general in Constitution and the details are set by another framework law. Until 2003, the framework law, setting the main principles and execution methods, was General Accounting Law (GAL), numbered 1050 and dated 1927. However, the most influential development in Turkey's budget system was the restructuring budget system starting from 2006 in line with PFMCL. The centralist approach of GAL has smoothed with the introduction of PFMCL. Enactment of PFMCL drastically changed the public financial management and control system, both in terms of operations and philosophy.

#### **3.1.1. Constitutional Regulations**

PFMCL was accepted by Parliament on December 10, 2003 and the most critical articles of Law, regarding the budget preparation and execution were going to be in force starting from January 1, 2005. Therefore, the Constitution was amended in October 2005; to let related articles of PFMCL can be executed, while preparing the Central Government Budget for 2006. In other words, amendment of the Constitution made it possible to prepare 2006 budget in line with PFMCL.

The Constitution defines the general framework for budget preparation and execution. The section, called "fiscal provisions" includes the article 161, the preparation of implementation of budget, article 162,

debates on the budget, article 163, principles on governing budgetary amendments and article 164, finalization of accounts.

According to article 161, the expenditure of the state and those of public corporations other than state economic enterprises shall be determined by annual budgets. Due to the Constitution, annual budget law is a special regulation and it is forbidden to make any provisions other than those pertaining to the budget shall not be included in the Budget Act. On the other hand, even the period of budget is set as annually, the Constitution gives authority to governments to prescribe special periods and procedures for investments relating to development plans, or for business and services expected to last more than one year by issuing a law.

Article 162 of the Constitution defines the time limitations on the parliamentary debate and sets the period of submission of the budget. The government submits the draft budget law and a report containing the national budgetary estimates to the parliament at least seventy-five days before the beginning of the fiscal year, which means October 17. Accordingly, government decides about the spending and determines the need for financing by considering this calendar.

Article 163, which regulates the parliamentary procedures, has a significant importance on the creation of an opportunity for the involvement of interest groups. The article states that the draft budgets and the reports shall be considered by the Budget Committee and does not allow to be discussed by other technical committees. Moreover, the Constitution sets fifty-five days limitation for Committee debates. The Constitution not only restricts the debates to be done by Budget Committee, but also defines the structure of the Committee. Budget Committee shall be composed of forty members and the composition of the Committee should reflect the proportional representation of the various political party groups and independent members in the parliament. Besides, at least twenty-five seats are allocated to the members of the party in power.

In addition to the Committee debates, Article 163 rules the negotiations in the Assembly by regulating the completion of debates before the beginning of fiscal year, January 1<sup>st</sup>, and by defining rules of expressing

the opinions of the members of the parliament. Therefore, members of the parliament shall express their opinions on ministerial, departmental and subsidiary budgets during the debates held in plenary session on each budget as a whole; the various headings and motions for amendments shall be read out and put to the vote without separate debate. More importantly, during debates in the plenary session on the draft Budget Act, members of the parliament cannot make proposals which entail an increase in expenditure or a decrease in revenue.

By setting time limitations, defining the parliamentary procedures in detail and restricting the proposals of parliamentary members, the Constitution clearly sets the power relations between the parliament and the government. On the other hand, the appropriations granted under the budgets indicate the limit of expenditures allowed. No provisions shall be included in the budget to the effect that the limit of expenditure may be exceeded in pursuance of a decision of the Council of Ministers. The Council of Ministers shall not be empowered to amend the budget by a decree having the force of law. Therefore, the parliamentary power transferred to government is clearly limited and no amendment authority is given to the ruling party.

Considering that the budget is the proposal of the ruling party regarding the forthcoming expenditures and the way of its financing, final account let parliament to control the budget and to review the use of authority in an appropriate way. Article 164 defines the submission of final accounts to the parliament to provide accountability of ruling party to the parliament. Similar to the limitations on parliamentary debates, this time the Constitution sets some limitations for government to submit final accounts. According to the provision, draft final accounts shall be submitted to the parliament by the government within seven months of the end of the relevant fiscal year, unless a shorter period is prescribed by law. The Audit Court shall submit its notice of conformity to the parliament within seventy-five days of the submission of the draft final accounts in question. The provision also includes the rules of negotiation of final account in the parliament by indicating that the draft final accounts shall be placed on the agenda of the

Budget Committee together with the Draft Budget Act for the new fiscal year. The Budget Committee shall submit the draft Budget Act to the Plenary Assembly in conjunction with the draft final accounts; the Plenary Assembly shall decide on the draft final accounts in conjunction with the draft Budget Act for the new fiscal year. The submission of the draft final accounts and the notice of conformity to the parliament shall not preclude the auditing of accounts for the relevant year which have not already been dealt with by the Audit Court and shall not indicate that a final decision has been taken on these accounts.

### **3.1.2. General Accounting Law**

Based on a centralist approach for financial management system, GAL was the legal basis for budgeting and accounting system since 1927, until the enactment of PFMCL in 2003.

Within the framework of GAL, the budget was called as “consolidated budget” and consisted of “general budget” and “annexed budget”. Parliament, presidency, ministries, juridical bodies and courts were classified as “general budget agencies” while entities such as General Directorate of Highways, General Directorate of State Hydraulic Works and universities classified as “annexed budget agencies”. Relative autonomy for expenditures was given to the annexed budget agencies, since they supposed to have their own revenues such as fees, charges, earmarked taxes, non-commercial sales and profits transferred from revolving funds. However, in case of deficit those were balanced through the transfers from general budget. In addition to the consolidated budget, GAL also sets the rules and regulations for “special budget agencies” which are local administrations, extra budgetary funds (EBFs) and revolving funds.

According to GAL, budget preparation calendar was starting with the call of Prime Minister in June (Table 1). Budget call was including a brief evaluation of previous budget year and the targets for the coming fiscal year. In line with the budget call, Ministry of Finance (MoF) was announcing the budget preparation guideline which was involving the principles and standards that should be considered by spending agencies. These agencies were preparing and submitting their proposals in accordance with the budget

call and MoF Guidelines. As emphasized by World Bank (2001), both budget call and the budget guidelines have tended to be focused on technical details and do not convey a sense of the strategic objectives of government. The failure of the guidelines to provide an indicative ceiling to guide budget preparation has meant that budgets of line agencies have been prepared as unconstrained demands for resources.

**Table 1. Budget Preparation Cycle (Law no 1050)**

June	PM's Call to the Budget & MoF Guidelines
July	Agencies' preparation of budget requests
August	Agency budget negotiations with MoF, SPO
September	Aggregate budget ceilings defined by MoF, SPO and UT
September – October	HPC meeting to endorse aggregate/sector ceilings
Mid-October	Budget & Final Accts. sent to the Parliament Cabinet issues Decree on Annual Program
October - November	Plan and Budget Committee debate
December	Plenary debate & budget approval Budget Law passed by the Parliament
January	SPO issues list of investment projects as annex to Annual program

Source: Budgeting in Turkey, D.Cansızlar, MoF 1994

The dispersed structure of responsibilities among central agencies resulted in submission of recurrent and investment budgets to different departments. The request for budget allocations for recurrent and transfer budget were discussed with MoF officials and State Planning Organization (SPO) for investment budget, at technical level in August. During the discussions, MoF was reviewing the proposal of line agencies whether those are prepared in line with the Prime Minister's budget call and MoF's budget guidelines.

SPO is responsible for the formulation of investment budget. Similar to MoF's budget guidelines, SPO prepares a guideline for preparation of investment program, attached to the Prime Minister's communiqué. Investment proposals are discussed with the line agencies and SPO officials before allocating funds to finance their investment whether proposals are in line with the guidelines and priorities set by the five year development plan and annual program.

High Planning Council (HPC) finalizes the draft budget in September and decides economic and social targets and specifies the ceiling of current, investment and transfer allocation for the agencies. Later, MoF and SPO finalize their negotiations with agencies. Draft law and supplementary documents are submitted to the Parliament in October, seventy-five days before the beginning of the fiscal year. Budgets are classified by organizations, programs, economic nature of expenditures and groups divided into sub-classification of functionalities, such as personnel expenditures, purchase of immovable and construction, transfer payments, etc. On the other hand, in line with the budgetary classification, members of the parliament express their views on ministerial, departmental and subsidiary budgets during the debates as a whole. Due to the limitations in the Constitution, Plan and Budget Committee discusses the draft budget law within 55 days and submits to the Grand Assembly. Final approval of Parliament on draft law takes place at program level.

According to the article number 56 of GAL, reallocations between the programs require law; however, reallocations between the spending items within a program could be done by MoF. On the other hand, it is not allowed by GAL to transfer appropriations from personnel expenditures to other spending categories. However, article 24 and 37 gives authority to MoF to have reserve appropriation in ministry's budget to transfer required allocations to relevant budget items of other agencies. Similar to reserve appropriations item, article 59 makes possible to allocate appropriations for unpredictable expenditures as an item in MoF's budget. Article 48 of GAL gives authority to MoF to increase some appropriations such as court fees, salaries of retired, widowed and orphans, automatically. If additional appropriation is required for an expenditure item, article 36 gives authority to MoF to provide additional appropriation for that item. However, MoF may also allocate an appropriation for expenditures which were not stated in the budget, this is called as extraordinary appropriation. Moreover, if budget appropriations become inadequate for the actual needs for expenditures, supplementary budgets may easily be enacted if governing party has majority in the parliament. Nevertheless, this opportunity may result in deterioration of sincerity of budget. Finally, parliament has right to issue supplementary appropriation while negotiating the final accounts law.

Delegation of power for using the public funds through the expenditures and the procedure for performing expenditures were regulated by article 7, 10, 13, 15, 22, 69, 72 and 81 of GAL. Accrual officers and accountants were responsible for the usage of appropriations in an efficient and economical way.

Budget framework defined by GAL had a fragmented budget structure, complicated budget allocation mechanisms and visas issued by MoF, SPO and Turkish Court of Accounts (TCA) that were required in different expenditure steps. Additionally, there were multiple funding sources such as earmarked revenues, funds and revolving funds. Budgetary control mechanisms were strict. In addition to the authority of monitoring budget appropriations, ex-ante control of expenditures of line ministries and re-appropriation; payment authority and account keeping were also fully under control of MoF, through the budget departments and accounting departments, that were staffed by the Ministry. Additionally, MoF had right for ex-post auditing, similar to TCA.

On the other hand, even the Cabinet does not have power to exceed the limit of budget appropriations, having a reserve appropriation was giving an extensive power to MoF to reshape budget allocations and allow Ministry to transfer significant amount of appropriations among the programs of legislated budget. This resulted in a significantly different budget at the end of the year, comparing with the budget, originally approved by the parliament.

### **3.1.3. Public Financial Management and Control Law**

Large spectrum of off-budget arrangements, divided responsibilities among the institutions for policy making and execution in the budget process, and insufficient predictability of using public resources by state as a tool, forced the enactment of PFMCL. One of the most critical amendments, introduced by PFMCL was regarding the scope of budget. Considering, that more than 85 per cent of the revenues of annexed budgets were transfers from the general budget (Cansızlar, 1994), the status of annexed budget agencies, other than the universities switched to general budget agencies and annexed budget was abolished. Central Government Budget, which includes the general budget agencies, special budget agencies and regulatory and supervisory agencies, replaced the Consolidated Budget. General budget

agencies involve legislature, juridical, executive agencies including ministries and related entities such as General Directorate of Highways, General Directorate of State Hydraulic Works, Revenue Administration, Turkish Statistical Institute (TSI). Special budget agencies classified under two categories, List II-A, which is attached to PFMCL, involves The Council of Higher Education, state universities and the institutes of technology while List II-B involves special budget agencies such as Undersecretariat of Defense Industry, The Scientific and Technological Research Council of Turkey, Public Administration Institute for Turkey and the Middle East, General Directorate of State Opera and Ballet. Special budget agencies are established with specific laws, can raise their own revenues and have right to use these revenues for their operations. Regulatory and supervisory agencies, such as Banking Regulation and Supervision Agency, Radio and Television Supreme Council, Energy Market Regulatory Authority, are also included in central government definition<sup>7</sup>. Therefore, enactment of PFMCL widened the definition of budget and increased the authority of budget agencies. On the other hand, local administrations and social security institution are regulated by PFMCL in terms of budgeting and accounting, while only local administrations were covered by GAL.

Another important change is the introduction of medium-term fiscal framework. The first medium-term budgeting process was introduced in 2005 for 2006-2008 (Table 2)

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<sup>7</sup> An up-dated and complete list of agency classification in terms of budget type may be provided from <http://mevzuat.basbakanlik.gov.tr/Metin.Aspx?MevzuatKod=1.5.5018&MevzuatIis ki=0&sourceXmlSearch=>

**Table 2. Medium Term Budgeting Process (Law no 5018)**

May	Cabinet issues Medium-term Program prepared by SPO
Mid-June	HPC issues Medium-term Fiscal Plan prepared by MoF
End June	Budget Call and Budget Preparation Guidelines by MOF
End June	Investment Program Preparation Guidelines by SPO
July	Agencies submit budget requests to MoF and SPO
August	Agency budget negotiations with MoF, SPO
September	Regulatory and supervisory agencies sent budgets to the Parliament and MoF
September - October	Aggregate figures on revenues, expenditures and deficit set by MoF, SPO and UT
October	Aggregate figures on revenues, expenditures and deficit approved by HPC
Mid-October	Cabinet sent Budget & Final Accts. to the Parliament Cabinet issues Decree on Annual Program
October - November	Plan and Budget Committee debate
December	Plenary debate & budget approval Budget Law passed by the Parliament
January	SPO issues list of investment projects as annex to Annual program

Source: Own preparation in line with the articles of the Law Numbered 5018

In order to strengthen the relationship between the policy, planning and budgeting, PFMCL requires SPO to prepare Medium-term Program by the end of May. Five-year development plan and strategic plans are taken into account by SPO during the preparation of medium-term program. Macroeconomic policies and targets for main economic figures are programmed in the Medium-term Program and published in Official Gazette after the approval of the Cabinet. Medium-term Program sets the medium-term policies and determines the sectoral priorities which create a base for Medium-term Fiscal Plan. In line with the targets, determined by Medium-term Program, MoF prepares Medium-term Fiscal Plan in consultation with SPO and Undersecretariat of Treasury (UT). Plan includes aggregate revenue and expenditure amounts, expected deficit and financing requirement. Additionally, ceilings for budget requests of the agencies are also determined in the Plan. Medium-term Fiscal Plan is endorsed by HPC, and it has to be published in Official Gazette by mid-June.

PFMCL requires agencies to prepare their strategic plans and exercise performance budgeting in order to clarify policy goals and objectives. Applying the concept of IMF's Manual on Government Finance Statistics (GFS), the Law provides an analytical budget classification and accrual based accounting system for general government and local governments. Accordingly, ten-sector functional classification was applied in 2004. Agencies submit their proposals for expenditures, in terms of institutional, functional and economic classification. In the proposal they are supposed to consider the guidelines prepared by MoF and SPO, and it should be consistent with their strategic plans<sup>8</sup> and performance goals. Revenue estimations are prepared in economic classification. Regulatory and supervisory agencies prepare their budgets in line with their strategic plans, and arrange expenditure proposals in terms of institutional, functional and economic classification by the end of September.

On the other hand, instead of budget departments, which were the entities of MoF, budget requests has to be done by Strategy Development Units (SDU), which were founded by PFMCL within the ministries and agencies, and these units are responsible for top management of the line agencies.

After collection of the proposals from line agencies, MoF consolidates the figures, considering the general framework determined by Medium-term Program, in consultation with SPO and UT. Later, MoF submits aggregate figures to HPC and after approval of the figures, budget bill and its attachments are submitted to the Parliament. The attachments, mentioned in PFMCL, are statement of reasons, annual economic report, list of withdrawn public revenues due to exemptions and exceptions, public debt management report, budget realizations of general government agencies for last two years and projections for revenues and expenditures for coming two years, budget estimations of local administrations and social security institutions, and a list of institutions which are going to be benefited from central government budget transfers.

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<sup>8</sup> In July 2003 SPO launched a pilot project to introduce strategic planning with the involvement of Ministry of Agriculture and Rural Affairs, Turkish Statistical Institute, General Directorate of Health for Borders and Coast, General Directorate of Highways, Hacettepe University, Denizli Special Provinces Administration, İller Bank, Kayseri Metropolitan Municipality. Based on the experiences, strategic planning is widened to the rest of the government starting from 2008.

Debates in the Parliament are similar to that of pre-PFMCL period. First, Plan and Budget Committee members discuss budget on the organizational base, high level bureaucrats and the minister in charge of the agency represents their institutions during the Committee meetings. In the plenary session of the Grand Assembly, members of the parliament may express their views on ministerial, departmental and subsidiary budgets. On the other hand, due to the improvement in the coverage of budget, debates cover all general budget and special budget agencies, regulatory and supervisory institutions. Formerly, only 61 percent of general government expenditures were covered (World Bank, 2006) and the debates were limited with the scope of consolidated budget.

### **3.2. Power Balances in Budget Processes**

GAL was based on the French centralist financial management system. Accordingly, it was emphasizing strong control over inputs through the extensive use of ex ante approvals by multiple agencies. Besides, high turnover of governments after late 1970s, first caused neglecting of sector policy issues and in 1980s weakened policy guidance of budget formulation with frequent earmarking and fragmentation of public finance with the strengthening of budgetary and extra-budgetary funds system. Additionally, the long lasting high inflation deteriorated long term financial planning and increased concentration on the indexation of personnel expenses and other expenditures of line ministries (World Bank, 2001). Starting from 1973 Planning-Programming-Budgeting System (PPBS) introduced, which was a major shift from line-item budget classification to plan based program classification. PPBS was not only a change in the presentation of budget but also was a device for steering the economy as a whole and centralizing the allocations of budgetary resources as argued by O'Connor (1973) and PPBS strengthened centralist budget management mechanism. PPBS assume that public policy is already determined through the long term plans and the political conflict for reallocation of public resources may be rationalized within the long term targets of the plan.

PPBS resulted in contained specialization and incremental decision making as the main budgeting devices. O'Conner (1973) defines contained specialization as taking over of budgetary decisions by specialists and incremental decision making as taking decision on the programs and policies by budget bureaucracy. Accordingly he indicates that budgetary decisions

taken out of the realm of politics and become bureaucratized. PPBS maintain the statu-quo and current power relations and acted as a step towards strengthening the executive office.

Although PPBS increased the control and domination of central agencies; it did not result in effective control of budget within an economic and political structure which did not help to keep fiscal power under the control of MoF. Separation of Treasury from the MOF in 1984 and establishment of Undersecretariat of Treasury and Foreign Trade (UTFT) which was in charge of cash management and deficit financing through domestic and external borrowing resulted in an increase in the dispersion of budget organization. It is observed that dispersed budgetary power weakened budgetary control and increased inefficiencies in the expenditure management and collection during the analysis period of this study.

### **3.2.1. Bureaucracy**

Core budgetary organs of bureaucracy are MoF, SPO and UT (UTFT until 1994). SPO was founded and involved in budget cycle on September 30, 1960; UTFT joined this cycle as a separate body starting from 1985, after separated from MoF. In addition to these core agencies, Central Bank and State Personnel Presidency (SPP) which established on December 17, 1960, act as the supporting agencies, in terms of determination monetary policy and the management of personnel regime. Considering the roles and responsibilities of central budgetary agencies, budget preparation and execution may be divided into three: MoF is responsible for tax collections and recurrent expenditures; SPO prepares and executes the investment budget; including the interest payments, main items of transfer budget are under Treasury's control, in addition to some of non-tax revenues. MoF, Treasury and SPO work together during the budget preparation process, however this coordination is not institutionalized and depends on the personal initiatives of the high level officers, especially at the level of undersecretary, his/her deputies and/or director generals.

Several departments of core budget agencies participate in decision making and implementation process. In MoF, General Directorate of Budget and Fiscal Control and General Directorate of Accounting involve in budget cycle. Besides, General Directorate of Revenues was contributing the budget preparation by forecasting the budget revenues until the establishment of Revenue Administration in 2005. Starting from 2006, with the establishment

of General Directorate of Revenue Policies of MoF, this new department undertook this role. In SPO, General Directorate of Annual Programs and Economic Evaluation, General Directorate of Economic Sectors and Coordination; in Treasury, until 1995 General Directorate of Public Finance was the only department engaging budget cycle. However, with the establishment of UT and General Directorate State Economic Enterprises as new department, it also started to take part in the budgetary decision making process.

PFMCL abolished the authorities of MoF and TCA with regard to grant visas. The law removed Budgeting Departments which were operating in line ministries with the staff reporting to MoF and delegated the authority of authorizing payments, internal control and ex-ante auditing of expenditures to the line ministries by establishing the SDUs. These are the departments of spending agencies and the staffs of these units are appointed by spending agencies. Besides, SDUs are obliged to prepare strategic plans under the supervision of SPO, and introduce strategic management in public institutions. Internal control and budgeting functions are also attached to the units.

The Law on Regulating Public Finance and Debt Management, and PFMCL clearly defined the role of Treasury as the cash and debt manager, and a separate entity in budget cycle.

Besides, PFMCL assigned MoF as mainly responsible for the coordination of budget cycle, implementation and monitoring of budget law; cashier and accountant of general budget institutions, and collection of taxes. In this regard, Public Accounts General Directorate developed an accounting information system, say2000i, to keep records according to GFS, and General Directorate of Budget and Fiscal Control developed a budget management information system to keep track of budget appropriations, allocation and utilization. As a further step in role sharing in public financial management, Revenue Administration has been established as a semi-authorized agency of MoF to collect taxes efficiently and to reduce tax expenditures.

### **3.2.2. Politics and Bureaucracy**

The existence of state constitutes the power relations around the state and indicates at least two main parties: state and society. Some of the goods and services, essentially the public goods, require collective action which

has to be taken by state. The state is supposed to act in line with the interests of the citizens. Politicians and bureaucrats represent the state in power relations between state and society. Citizens vote for politicians and politicians appoint bureaucrats. Politicians generally aim to increase the accessibility of their constituency to public funds, while bureaucrats trying to maximize their power by increasing their budget and influence areas. Therefore, roles and responsibilities of politics and bureaucracy in the budget cycle are regulated by laws and by constitutional regulations in some cases.

In Turkey, as stated in the previous section, legislation on the budgeting processes defined by constitution and GAL. However, GAL did not clearly define the division of responsibilities in respect to recurrent, investment and transfer budgets. On the other hand, the fragmented budget preparation cycle, organized by a number of legislation, required the active involvement of different government entities and made budget cycle more complicated and technical. Involvement of several parties made budget preparation cycle a struggle of different goals and incentives. Additionally, fragmented and diversified budget process made difficult to take key decisions for politicians, since the programs already been determined in line with the long term plans. However, in most cases, there is no consensus on the main policies and priorities such as the level of welfare, the group carrying the burden or benefiting the state's expenditures. At this stage the motivation behind the budgetary planning becomes important.

Political parties and the bureaucracy take place in the budget cycle, as the explicit players. However, in detail, each body involves different groups and another power struggle occurs in each group. Competition among different political parties to achieve the cabinet always has been the core struggle arena, in addition to the competition to hold power within each party (Wright, 1974; Coughlin, Mueller and Murrell, 1990, Fleck, 1999; 2001). The power struggle first starts with the elections since the members of the parliament are elected by voters. One should first have to compete within the party to become listed as a candidate. In case of finding a place in the list, the candidate has to compete with other candidates. In both competitions, candidate has to get the support of party leader, delegates and notables in his/her constituency. A candidate generally tries to get the support through the promises which include investments, benefits or direct budget transfers. Therefore, electoral competition is characterized by

distributive politics whereby the use of public resources to generate political support has become the main instrument through which a political party tries to gain advantage over its competitors (Atiyas and Sayin, 1999). From the local notables' point of view, the electoral process is the optimal way of putting pressure on the politicians. Besides, party leaders may give promises by considering the short term benefits of distributive politics which may be preferable by voters; even it may cause some macroeconomic problems in the long run. For instance, as an extreme case of populist promising, during election campaigns in 1991, Süleyman Demirel, the leader of True Path Party, promised to give 5 TL more for any promised subsidies by any other political party. As stated by Boratav, Yeldan and Kose (2000) populism dominates Turkey's democratic organizations and it is embedded in the political system.

Prime Minister is appointed by President among the members of majority party, in practice its leader. Cabinet is selected by the Prime Minister among the members of governing party in the parliament. A member of the Parliament whom strongly supported by his/her constituency and has strong network relations has an advantageous position to be selected by Prime Minister. As a result, after the elections, politicians continue to spent effort to meet the requests of constituency, mostly populist, to strengthen or at least to stabilize his/her political position within the party. Therefore politicians are very responsive for distributive demands of constituency due to the inter-party and intra-party competition. Responding to distributive demands of constituency has been seen as a primary duty of state (Atiyas and Sayin, 1999).

The power struggle coming from the inter-party and intra-party competition may result in allocation inefficiencies. In order to draw back populist promises and policies MoF, SPO and UT take responsibility to regulate and coordinate the budget preparation process considering cost efficiency, allocative inefficiency and budget discipline<sup>9</sup>. As a result of this role, strategic decisions regarding the main assumptions and targets of the budget have been taken by MoF, SPO and UT. As a part of budget cycle, in

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<sup>9</sup> Atiyas and Sayin (1999) define allocative inefficiency as to resolve collective dilemmas, constrain deficit biases so as to achieve and maintain macroeconomic stability and cost efficiency as to deliver public goods and services in the least cost manner and allocative inefficiency refers to ensure that public resources are allocated to maximize social welfare

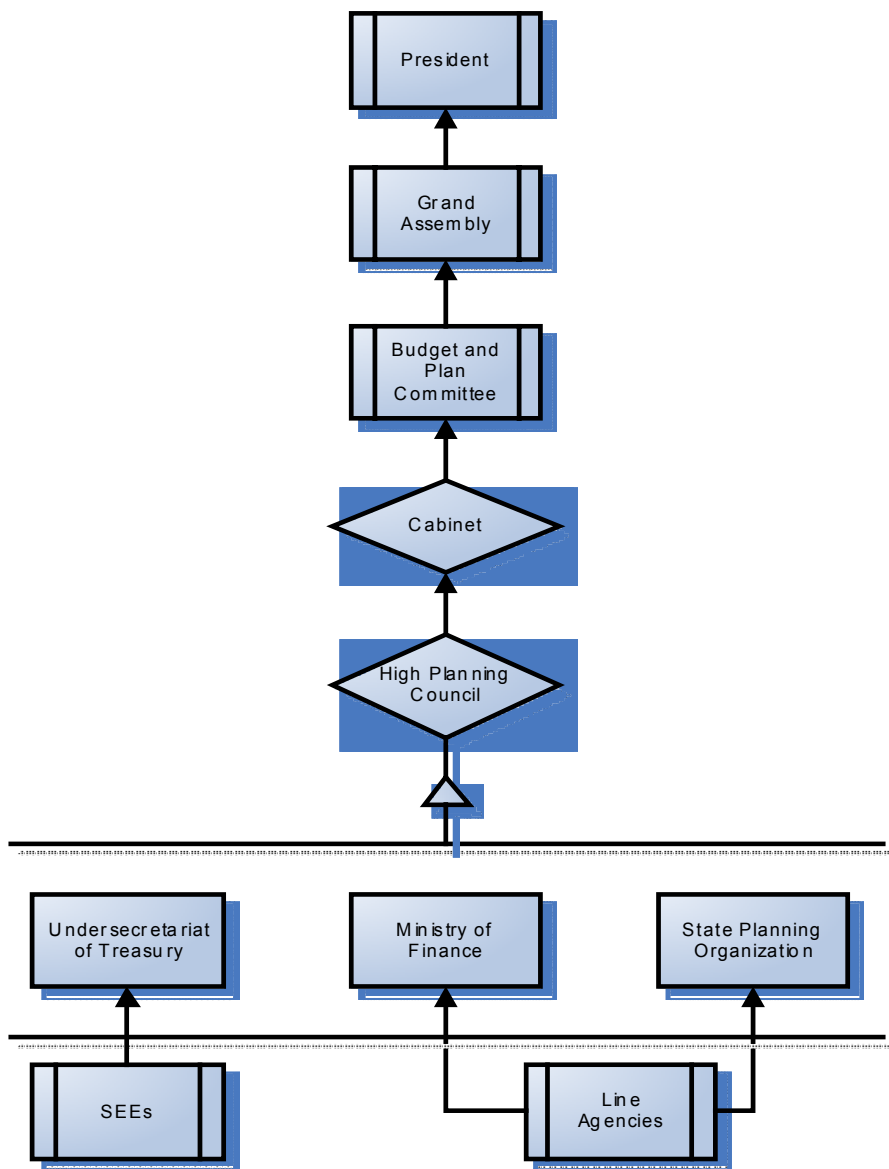
September, senior bureaucracy of MoF, SPO and UT aggregates budget figures considering policies and priorities. These policy recommendations are submitted to HPC<sup>10</sup> in order to get the approval of political will, since HPC works as the technical subcommittee of the Cabinet to set the priorities for the budget.

As the next step, the aggregated budget figures, based on policy initiatives originated from line agencies, submitted HPC with the technical commentary of central agencies, MoF, SPO, UT, Central Bank and SPP. The first critical stage of decision making on budget preparation policy is HPC meetings. HPC settles a top-down framework for the finalization of draft budget. In accordance with the political, economic and social policy initiatives of the government, HPC sets the ceilings for current, transfer and investment allocations. World Bank PEIR Report (2001) evaluates HPC as a forum which policy decision would be discussed and critical decisions regarding priorities would be endorsed.

World Bank (2001) underlines that the discussions at the HPC which is the highest authority for plan and budget preparation, are not substantive and do not focus on strategic choices. Consequently, political endorsement of policies covered in the Plan does not have any significant impact on the implementation of policy initiatives. Therefore, at minimum, Plan serves as a device to bind governments to a technocratic medium term policy consensus and limit the ability of politicians to destabilize policy. In practice, principally the policies and programs stated in the plan should be linked to the budget allocations. During the preparation of the annual budget, Plan is translated into Annual Program statement by SPO and reflects the macroeconomic framework and relevant aspects of priorities of the Plan for the coming year. Accordingly, as World Bank (2001) states that another opportunity is not given HPC and/or the Cabinet to make strategic choices in preparation of annual budgets. As with other documents approved by the Cabinet, the annual program appears to be subject to pro forma Cabinet approval without meaningful budget allocations (Figure 8).

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<sup>10</sup> HPC, includes Prime Minister, state ministers in charge of Treasury and SPO, Minister of Finance, Minister of Public Works and Settlement, Minister of Transportation, Minister of Industry and Trade, Minister of Energy and Natural Resources and Undersecretary of SPO as the secretary.



**Figure 8. Division of Power in Policy Formulation**

Source: Own preparation based on the flows in budget cycle

MoF and SPO officials finalize the draft budget in line with the directions of HPC. The decisions of HPC are subject to ratification by the Cabinet. Therefore, draft law comes in the agenda of the Cabinet and

ministers other than the members of HPC have opportunity and right to express their concerns about the draft Budget law.

### **3.2.3. Parliament and Government**

Draft budget law is submitted to the Parliament with attached documents and Annual Economic Report. After the submission of the draft budget law to the Parliament, second step for policy making is the review of Plan and Budget Committee. The members of the Committee can propose amendments to the budget law, however in practice any revisions cannot be done due to the requirement for creating necessary revenues for proposed expenditures and sophisticated structure of budget.

Plan Budget Commission of the Parliament and the Grand Assembly characterize the legislature, representing the citizens. Grand National Assembly of Turkey represents sovereignty rights on behalf of citizens and Plan and Budget Committee acts as its specialized technical agent. Representing the ruling majority, Cabinet requests from Parliament to transfer the power of spending of public funds for a year, through the budget law. Almost every time, Parliament acts in line with the expectations of government. Rejection of budget is a rarely occurred situation. For the first time, in 1965 while Prime Minister was İsmet İnönü; budget law was rejected by the Parliament. Last rejection occurred in 1970, while Süleyman Demirel was the Prime Minister.

According to the budget calendar, during October and November every ministry gives detailed information about their operations and justifies the need for allocation for their prospective policy implementations and projects. After the discussions in the plenary session of Parliament, approved draft law is sent to the President for enactment.

The parliament accepts the aggregate budget as proposed by governments; however the realized budgets are significantly above the appropriated budgets, especially over the period of 1991 and 1995, the average of overshoot reached to 20 percent. Later, this discrepancy decreased and has been no more than 4 percent until 2001 (World Bank 2001).

After approval of the budget law by the Parliament, government executes budget considering the limitations of expenditure programs and collects the revenues. Within the seven months from the end of the year,

final account law is submitted to Parliament and TCA presents a statement of conformity within seventy five days of the date of submission of the related final account law. Article 163 of the Constitution stipulates that allocations granted by budget set a limit for maximum amount which can be spent and there is no exception in budget laws for exceeding these allocations. Therefore, final account laws let Parliament to give conformity for the use of public funds by the institutions and approval of exceeded allocations due to some necessities. Considering the breakdown of the members of the Plan and Budget Committee, committee's decision is almost always in line with the government's expectations, which is approval of the accounts for previous year, including overspendings.

#### **3.2.4. President and Government**

The execution of power is shared between President and the Cabinet in Turkish political system. However, regarding the budget process, the President holds a power to enact budget law, but this power is limited by the Constitution. According to the Constitution, the laws accepted by the Parliament have to be enacted by the President within 15 days, otherwise returned to the Parliament for reconsideration, but the President has no power on the budget law and he/she cannot veto it.

#### **3.2.5. Interest Groups**

HPC has been the highest authority for budgetary decision making, but it was not focusing on the strategic choices, and the participation of different economic sectors and social groups cannot be provided. Interest groups mainly have been involving in distributive politics through elections and by constituency pressure. Several boards and councils were established to encourage formal participation of interest groups in decision making and the control of policy implementation, starting from 2001.

First, Economic and Social Council is established by Law no 4641 in 2001. Similar to Ireland's National Economic and Social Council, Economic and Social Council creates a platform for direct participation. The Council meets on a quarterly basis under the chair of Prime Minister, and consisting with Deputy Prime Ministers, State Ministers in charge of SPO, Treasury, Foreign Trade, SPP, MoF, Minister of Agriculture and Rural Affairs, Minister of Labor and Social Security, Minister of Industry and Trade, Minister of Energy and Natural Resources, Undersecretaries of State

Planning Organizations, Treasury, Customs, President of State Personnel, The Union of Chambers and Commodity Exchanges of Turkey, Türk-İş The Confederation of Turkish Trade Unions, TİSK The Confederation of Employer Unions, The Confederation of Turkish Tradesmen and Craftsmen, Union of Turkish Chambers of Agriculture, Hak-İş Trade Union Confederation, DİSK Trade Union Confederation and representatives of other non-governmental organizations, selected by the Prime Minister. The main duty of the Council is to make contributions to economic and social policies, which are developed by the government, and to coordinate and mediate relations between government and social sections and among the social sections. The secretariat functions are carried over by SPO.

Second step to increase the participation of stakeholders is to provide an opportunity for the involvement of foreign capital holders. Within the framework of “the Reform Program for the Improvement of the Investment Environment for Turkey” The Coordination Council for the Improvement of Investment Environment in Turkey (CCIIET) was established in 2001, to improve Turkey’s national competitive power on attracting foreign direct investment. CCIET aims to rationalize the regulations on investment and to develop policies by determining the necessary arrangement. The secretariat of Council has been carried out by the Treasury.

As a part of CCIET, Investment Advisory Council of Turkey was established in 2004, with the participation of senior executives from prominent multinational companies, as a platform to address the administrative barriers to investment, to improve the image of Turkey as an attractive investment destination and to provide an international perspective to the ongoing investment climate reform agenda.

Third platform for direct participation is Tax Council (TC), which was established in 2004 by amending the Decree number 178, Regulation on the Organization of MoF. As an advisory organization, TC aims to give opinion on the tax policies. The Council has 50 members and the breakdown of members are determined by a communiqué as follows; Undersecretary of MoF or one of the deputies, Director General of Revenues or one of the deputies, three representatives from MoF; one from Presidency of Council of State, SPO, Treasury, UFT, Undersecretariat of Customs, Banking Regulation and Supervision Agency, Capital Markets Board, Central Bank; eighteen members from trade unions, The Confederation of Turkish

Tradesmen and Craftsmen, associations, foundations and other non-governmental organizations; eighteen members are selected by Minister of Finance with recommendation of the Chair of the Council from people who has expertise and career on economy, public finance and tax issues, and at least nine of them should be academicians.

### **3.3. The Scope of Budget**

The size of the state is one of the most influential factors which determine the strength and the effect of government's redistributive policies. The struggle over public resources through the budget does not occur during the formulation process until the establishment of formal direct participation mechanisms such as Economic and Social Council. Until 2001, struggle mainly occurred during the implementation, since MoF has an obvious right to reallocate resources to specific activities through the reserve appropriations (Atiyas and Sayin 1999). However, it should be noted that the involvement of interest groups increased, while the scope of budget is widening. Therefore, it is clear that the scope of the budget determines a frame for the struggle area. Some of the public services, which may reach to significant portion of the total, may be provided outside of the budget through some special arrangements, called extra-budgetary funds, without considering the budgetary spending regime. Governments generally introduce extra-budgetary funds, where the budgeting procedures do not allow spending agencies to use revenues from cost recovery, or when certain priority expenditures need protection. Therefore, if transactions that require public financial resources are not subject to the same legislative approval process as the annual budget, it is outside of the budget (Schiavo-Campo, 2007). Through the extra-budgetary funds, government delegates revenue collection and spending authority to the outside of the territory of budget authorities and creates a parallel structure which executes different revenue collection and spending mechanisms. Therefore, extra-budgetary funds do not imply being outside of the legal structure or the authority of government.

Extra-budgetary funds are preferred by governments to protect priority expenditures from budget cuts; to avoid implementation problems in budget execution; to sidestep some appropriation management rules in the interest of powerful politicians or lobbies; to insulate donor's projects and programs in priority sectors at their request or to hide transactions from public or legislative scrutiny.

Rigid centrally controlled budget, lack of clear policy directions for budget formulation and adaptation to high inflation created an incentive for the fragmentation of the budget during 1980s. The MoF acceded to pressures by spending agencies and “non-budgetary funds” and “budgetary funds” created, as well as revolving funds, especially in health and education services strengthened (World Bank, 2001). These funds mainly financed by earmarked special excise taxes. Earmarking made expenditure decision not to be subject to the efficiency criteria but to the ability of politicians and lobbies to secure protection of their programs. Besides, there were two other reasons to increase in requests of establishing an extra-budgetary fund; first, having an extra-budgetary fund by ministries provided more fiscal authority on their revenues and expenditures. Second, from the voters’ perspective, it gave a prestigious position against other ministries, since a ministry, that have an extra-budgetary fund, may easily allocate public resources to economic sectors and social groups, without considering budgetary appropriation restrictions and auditing of Turkish Court of Accounts. Because extra-budgetary funds monitored outside of the budget and audited by the High Auditing Board, which has a different audit regime than the one carried by Turkish Court of Accounts which is authorized for the auditing of central and local government.

World Bank’s PEIR Report (2001) underlines that there were 62 budgetary, of which 13 extra-budgetary funds were not fully reflected in the budget. The establishment of extra-budgetary funds caused a struggle between central agencies, mainly MoF, and other spending units. MoF introduced some ad-hoc claw back mechanisms to reintegrate these funds into budget while spending agencies were trying to increase their access to financial resources outside of the budget system. Different financial management regimes occurred by the time being and the scope of budget narrowed to a significant extent. In line with the comprehensiveness of budget, predictability of budgetary financing and the power of central control reduced, and government’s financial accounts became incomplete since the accounts of extra-budgetary funds were not included in the budget. Besides, as indicated by World Bank Report (2001), since the priorities could not be defined meaningfully, budget remained an inadequate document to direct resources according to priorities, and it did not include enough information to activate related channels.

By the time being, EBFs became the main reason of deterioration of fiscal discipline and expenditures through EBFs used as a direct subsidy to some economic sectors and social groups, such as tourism and agriculture. EBFs were outside the budget's auditing and accounting regime and there was lack of transparency. The difference in accounting classification caused a loss of expenditure control and efficiency of resource allocation, and consequently generated an efficiency and governance problem. The role of central agencies, especially MoF, declined significantly on decision making process for the use of public resources and the control of expenditure procedures and revenue collection. In addition to EBFs, there were more than 3000 revolving funds, had been in an off-budget activity and result in similar effects in fiscal management. However, while EBFs were widened almost all of the economic sectors, revolving funds were mainly established in health and education sector.

Government operations may create a cost without explicitly recorded in the budget. Activities such as subsidized credits to farmers and small enterprises by public banks; goods and services provided by state economic enterprises below the market cost; guarantees issued by government for such financial or functional operations of public or private entities called as quasi-fiscal operations.

Additionally, tax expenditures, Treasury's financing operations such as external credits provided for the financing of investment projects, Treasury guarantees issued for external borrowing of public institutions and banks, on-lent loans provided by Treasury were not included in the budget. Financing of investment projects through external project credits was providing high amount of funds on one side, and disbursement of these funds were providing a facility to avoid budgetary control procedures on the other side. Through the undertaking of Treasury guarantees, considerable amount of resources transferred especially to state owned enterprises, municipalities and their entities. Issuance of Treasury guarantees and on-lent loans with no cost for the budget caused a moral hazard in public sector since these guarantees and on-lent loans were perceived as grant by beneficiary agencies. Undertaken guarantees and non-performing on-lent loans cause an increase in financing requirement and result in a rise in Treasury debt stock.

In 2001, all EBFs have been eliminated except Promotion and Publicity Fund, Defense Industry Support Fund, Privatization Fund, Social

Aid and Solidarity Incentive Fund, and Saving Deposit Insurance Fund. Besides, all budgetary funds were abolished except Support Price Stabilization Fund.

Enactment of the Law on Regulation of Public Finance and Debt Management in 2002 restricted the issuance of Treasury guarantees and on-lent loans. Budget appropriations required for the undertaking of guarantees and provision for non-performing on-lent loans. Therefore, financing of public investment through external project credits included in the budget.

On the other hand, there was an attempt with PFMCL to rationalize and reform revolving funds. In 2003, PFMCL was regulating that the revolving funds supposed to be closed before the end of 2007, but it could not be put into practice after four years. It was decided by the AKP to restructure the revolving funds with an amendment to PFMCL in 2005. Currently, especially in health and education sector, there are more than 1000 revolving funds, which reach to 1.7 percent of GDP.

However, even the closure of revolving funds could not be put in into practice, as a result of the closure of EBFs and covering of Treasury's financing operations, such as on-lent loans and guarantees, in the budget, significantly increased the scope of the budget. Consequently, increasing coverage of budget enhanced the redistributive power of central agencies, MoF, UT and SPO.

### **3.4. Budget Classification**

From this study's objective point of view, budget classification is important from two reasons. First, it serves to create links between government policies and the allocation of public funds to the programs developed in line with these policies. Therefore, it may be considered as a tool to determine the roles and responsibilities in budget preparation and execution between the politics and the bureaucracy. Increasing technical details in the budget processes makes budgets more sophisticated and let bureaucracy to have more control while keep aside the politicians by creating a pressure.

Second, due to the presentation style there may be alienation against budget since it may be considered as a black box by citizens and academicians. As a result, public opinion does not appear on redistributive

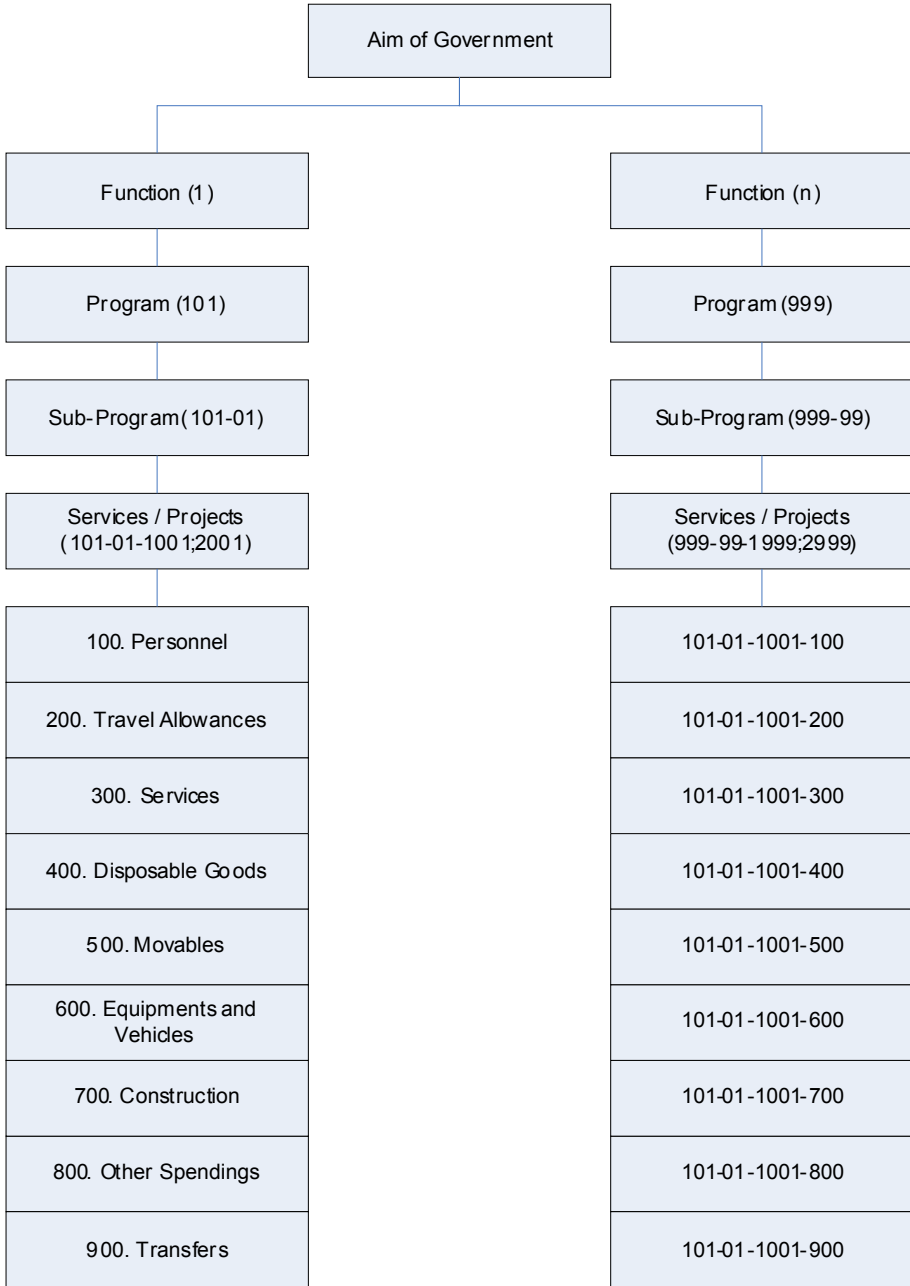
policies and people do not monitor how taxes and public funds are allocated to different programs and social sectors.

During the analysis period of this study, planning-programming budgeting system was in practice and starting from 2004 budgeting system was changed to analytical classification.

### **3.4.1. Planning-Programming-Budgeting System**

Program level presentation in the budget is the result of PPBS, which introduced in 1973. PPBS was aiming to link the allocation of public funds to programs which serves to achieve institutional targets. PPBS required the exploration of the reasons of behind the necessity for expenditure and the goal for establishment of a program for public spending. Accordingly, budgets should be evaluated as the program of Cabinet and parliament audits the efficiency of the use of public funds (Coşkun, 1997). PPBS endeavored to set the relationship between plan and budget, therefore Five-Year Development Plan was evaluated as a base for the budget.

Plan serves to outline a range of issues and reforms across sectors and provides an agenda. It is likely to be perceived to reflect a broad consensus rather than a partisan program and provides to government a medium-term vision of public policy. Plan includes intensive policy content without indicating any priorities; however it does not involve an estimation of the cost of these policy initiatives. Budget laws involve a text which mainly gives authority to core budget agencies; an expenditure schedule of ministries, legislative entities, judicial and other executive bodies; revenue estimates and annexes with supporting schedules. Appropriations are granted for one year and cancelled at the end of the year, if those are not utilized. However, if there is a regulation in budget law or another law, or contracts extending over one year, appropriations may be transferred to the next year budget. Appropriations are allocated for current expenditures, transfers to households, state economic enterprises, EBFs, revolving funds, non-governmental organizations and other sectors, and investment expenditures. Also, allocations for interest payments are included in the budget. Revenue estimations involve tax revenues, regular non-tax revenues and special funds and revenues.



**Figure 9 Plan Program Budgeting System**

Source: G.Coşkun (1997) p. 152

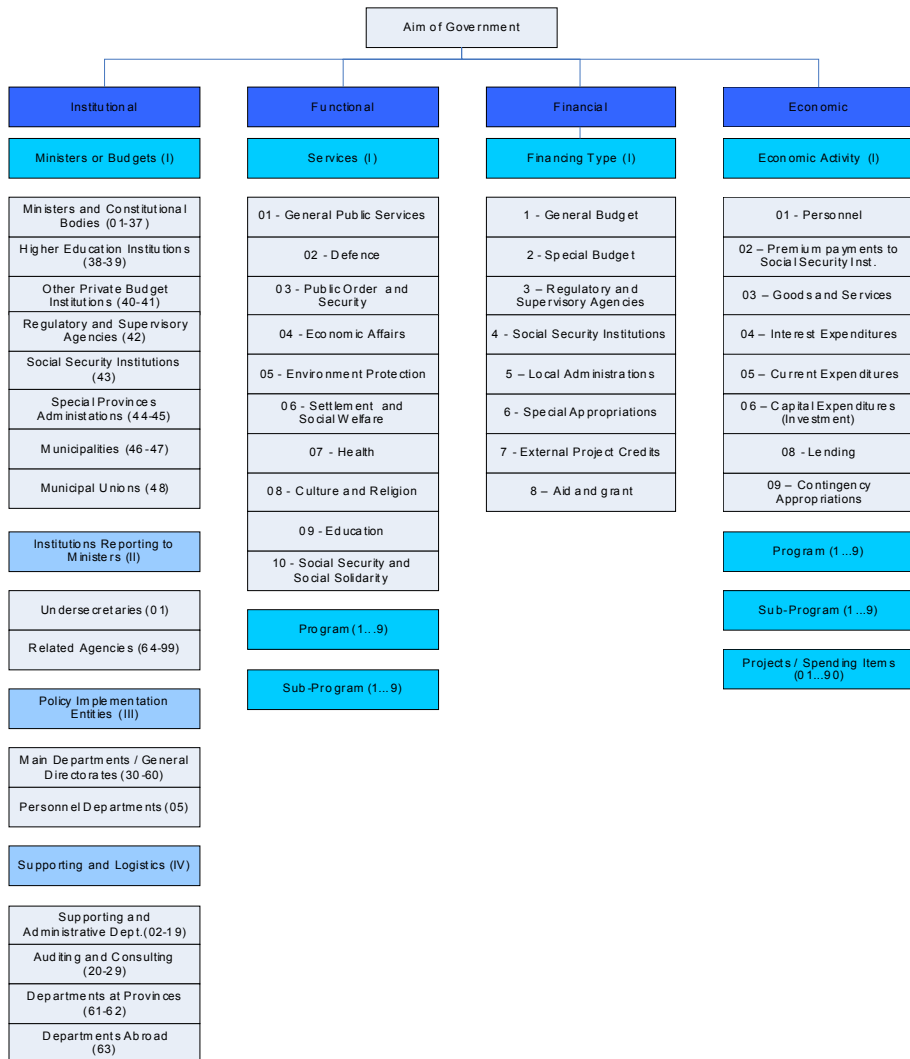
Programs, as the main service groups of public institutions, create the budget. PPBS, was based on the services provided by state, and the services divided into programs. Public funds are allocated for government expenditures to achieve these programs. Therefore, total amount of allocations indicated the service burden for those public agencies. PPBS made possible to classify budget expenditures in a limited number of expenditure items, however sub-programs, which covers the services, let to allocate required funds to detailed expenditure categories.

PPBS was based on classical organization structure of state and does not reflect a functional classification (Figure 9). As indicated by Coşkun (1997), PPBS had been considered as a change in the budget classification and its characteristics which make it as an economic and fiscal tool for increasing the efficiency of public management could not be introduced into the system.

#### **3.4.2. Analytical Budgeting System**

Studies for the development of analytical budget classification were started in 1995, as a part of Public Financial Management Project (PFMP). UT, Ministry of Energy and Natural Resources, General Directorate of Highways, Turkish Coast Guard Command, Hacettepe University and Ege University prepared their budgets in line with analytical budget classification in addition to classical PPBS budget classification starting from 2002. Other consolidated budget agencies were obliged to submit their budgets both with analytical and PPBS classifications in 2003. Starting from 2004 budget analytical budget system has widened to general government. 2006 budget introduced the IMF's Manual on Government Finance Statistics (GFS) classification, including the ten sectors functional classification. GFS creates a basis for the analytical budget classification and accrual based accounting system for general government and local governments, in line with European Union (EU) practices.

Analytical classification includes institutional, functional, financial and economic classifications. Institutional classification is based on the state's organizational and hierarchical structure and aims to determine the costs and responsible entities for programs, politically and administratively.



**Figure 10 Analytical Budget System**

Source: Own preparation based on the budget tables.

There are four levels and eight-digit coding system in institutional classification. First level involves 24 institutions which are the ministries and their constitutional equivalents. Second level covers the highest bureaucratic authorities who are directly reporting to ministers or head of the first level institutions. Departments, such as general directorates, that perform spending for program and policy implementation are categorized in third level. Logistics and supporting units are covered by fourth level (Figure 10).

Functional classification primarily covers main services provided by the state. These services, such as health, education, transportation and agriculture, are the programs of governments. There are four levels and a six-digit coding system in functional classification. First level classifies state functions into ten categories and these functions are divided into programs in second level. Third level shows the final services given to the public and fourth level is blank for probable requirements.

Financing classification is a single level eight-coding system which aims to categorize budget expenditures according to the institutions which undertakes the cost of expenditure. This classification aims to show the budget type of services provided by different institutions, such as general budget, special budget and social security institutions.

Economic classification is built on the standards of GFS. This classification aims to determine the conjuncture function and other economic functions of budget by considering the economic influences of expenditures on national income and unemployment. Economic classification has four levels, but budgets include only two levels. It has a six-digit coding system.

### **3.5. Budgetary Assessments and Global Influences**

Starting from 1990s, under the orientation of international organizations and supranational bodies, the idea of governance which refers to accountability and transparency in public sector, gained a significant momentum. Following New Zealand's Fiscal Responsibility Law in 1994, many countries issued laws to increase accountability and transparency and allow participation of stakeholders, directly or indirectly. Good governance also encourages decentralization since it argues that economic and financial activities of state and the public services may be better audited by citizens locally. Including stakeholders in the decision making processes implies exclusion of politics, to some extent, from revenue and expenditure management. As an evidence of this policy choice by international organizations, in a World Bank document Haggard and Webb (1994) argues that in every successful reform effort, politicians delegated decision making authority to units within the government who were insulated from routine bureaucratic processes, from legislative and interest group pressures or even from executive pressures. World Bank and IMF's commitment to strengthen good governance in public financial management finds its reflection in IMF

and World Bank's co-prepared poverty reduction strategy paper, which recommends highly indebted poor countries to increase participation on the design and implementation of economic and fiscal policies. Therefore, World Bank and IMF (2002) states that the role of parliaments in the preparation, approval and monitoring of country strategies has generally been limited and is a concern that has been expressed by a number of development partners.

The international influences on public financial management system have historically been observed through different administrative or financial reform initiations for restructuring of state (TODAIE, 1963, 1991, Guler, 1997, 2000, Aslaner, 2005). Budgetary reform, which aims to switch from classical budget system to program budget, started in 1968 was carried with the establishment of a budget reform working group with contribution of experts from Ministry of Finance, Budget and Control General Directorate and US Agency for International Development (USAID). It was the first steps of pilot implementation and was done with four selected ministries, namely Ministry of National Education (MoNE), Ministry of Health (MoH) and Social Solidarity, MoF and Ministry of Agriculture. In 1969, Prime Minister's circular ordered to establish a budget department at every general and annexed budget agencies by the end of 1969. Program budget system was started in 1972 for 1973 budget (Coşkun, 1997).

In 1994 MoF launched PFMP to strengthen fragmented and ad-hoc decision making process and to modernize budget preparation, monitoring and accounting. It was aimed to introduce a new functional classification system to prepare an action plan to streamline budgetary control process to initiate elimination of EBFs and introduce new regulations and accounting methodology by 1997. This initiative could not be completed, but the World Bank financed PFMP has become an influential assessment carried in cooperation with international organizations.

In 2000, IMF urged that due to the existent quasi-fiscal operations and non-budgetary transactions, budget coverage became limited and deteriorated the transparency of fiscal operations. According to IMF, financial relations between different levels of government were unclear, the budgetary responsibilities were fragmented and lack of functional classification of expenditures handicapped expenditure analysis.

A comprehensive review of public financial management, Public Expenditure and Institutional Review (PEIR) has started as a co-study with the World Bank experts and the officials from Ministry of Finance, State Planning Organization, Treasury, Turkish Court of Accounts and selected line agencies. PEIR report briefly recommended widening the scope of budget by eliminating quasi fiscal activities, introduction of multi year budgeting, analytical budget classification and accrual accounting system and reviewed the roles and responsibilities in budget programming and execution. World Bank (2001) was emphasizing that policy formulation was a neglected function in line ministries and the Cabinet; the processes for HPC and Cabinet decision making on strategic policy choices were very inadequate; partly because of lack of credible HPC and Cabinet guidance on real priorities, implementation of policy decisions had been poor; responsibility for budget management was divided; budget preparation was hampered by fragmentation of the budget; ex-ante guidance to the line ministries on ceilings was inadequate; parliamentary committees did not play a strong compensating role to establish priorities or demand transparent fiscal policy; budget implementation while improved along some dimensions, was limited by the upstream handicaps, due to policy and budget formulation; excessive ex ante input controls limited managerial discretion and performance in line agencies; reporting on budget implementation was incomplete due to the absence of a comprehensive general government reporting framework; fragmentation of budgets, the absence of functional classification of expenditure and lack of clarity on roles prevented a sector wide perspective and undermined effective policy analysis and risk management during institutional capacity and budget decision taking processes.

On the other hand, OECD's economic surveys of 2002, 2004 and 2006 had particular attention on Turkish budget system and provided recommendations concerning budget institutions and processes, such as introduction of multi-annual fiscal planning, increasing decentralization, giving more autonomy for spending agencies, and providing more room for market sector by introducing public private partnership to increase competition especially in public services like health and education.

Another international assessment on Turkish budget system was EU Commission's regular Turkey's Progress toward Accession Reports (1999,

2000, 2001) noted that Turkey's budgetary practices were not consistent with EU standards in terms of budget coverage, budget preparation processes, budget classification and budget execution. EU Commission urged that budgetary practices in Turkey should be improved in line with EU practices, accounting standards and transparency of budget system should be increased, additionally, internal and external audit functions should be reviewed.

In 2006, OECD/SIGMA prepared a report as per the request of EU. The report draws attention to a necessity for checking the consistency of public financial regulations. It also criticizes that the responsibility for the budget process was shared among the MoF, SPO and Treasury but the position of some agencies like İller Bankası was unclear. Consequently, the report notes a need for organizational arrangements and recommends decentralized financial services units should take the lead of further reforms.

Starting from 2002, the coverage and categorization of expenditures and revenues of general government were gradually changed into analytical classification which was developed based on the GFS and ESA 95 standards. It is the evidence that reclassification of budget was a critically important for international bodies since it became one of the conditions of stand-by agreement between Turkey and IMF and closely monitored.

PFMCL transformed public expenditure and financial management processes in line with EU. However, enactment of PFMCL implies more than converging to EU standards and restructuring of public financial management. It is an attempt to increase efficiency of state's access and use of public resources in a more transparent way and accountable to interest groups. Increasing efficiency implies redistribution of funds in a more competitive manner. Supplementary regulations, supporting the direct participation of non-governmental decision making processes make interest groups effective. PFMCL symbolizes a transformation from Atlantic Fordist economy which is an accumulation regime based on virtuous autocentric circle of mass production and aims to maintain the continuity of mass production through demand management in line with the supply-driven needs of Fordist mass production, to the post-Fordist production to secure economic growth within borders or abroad to assure competitive advantages of capital by promoting extra-economic conditions. Considering the competitiveness of state has been deteriorated, economic and social policies

were determined and implemented by central agencies and a mixed economy which may be considered as statist, the budget reform that aims to increase decentralization, integration with global markets and introduce good governance practices became an issue. PFMCL stipulates flexibility to line agencies to increase efficiency and accountability. Law aims to increase efficiency in allocating resources and it is expected that this new public financial organization will alter the pace and direction of economic growth and enable the economy to compete more effectively. Therefore, influences of global developments may be observed through the budget reform initiatives and actions.

As the conclusion, it is a fact that budget cycle cannot be understood without considering the legal basis which determines the overall framework. Starting from the constitution, there have been a number of legislative regulations, which set the rules and conditions for budget preparation and execution, including the parliamentary debates. Until the enactment of PFMCL, GAL was providing the main legal structure for this process. This new regime, not only changed the power relations among social groups and but also the comprehensiveness of the budget and its classification, both have influence on redistributive power of budget. Besides, budgetary relations evolved under the pressure of supranational organizations, through the assessment reports which were strongly emphasizing transparency and accountability. The next chapter explores the limitations and restrictions regarding the budget data and determines the period of study. Besides, expenditures and revenues are reclassified in order to determine the power relations within the budget cycle.

## **CHAPTER 4**

### **METHODOLOGY**

State budget as a law, puts limitations on expenditures and gives authority to collect revenues, sets the general framework of this study. However, in accordance with the authority given by the budget law and other regulations MoF reallocates appropriations between programs and makes transfer through the extraordinary appropriations and contingency appropriations. Consequently, the final bill may have significant differences from the budget law, however the final bill is not considered as a part of this study, since it focuses on the policy preferences of ruling part and its redistributive aims. This chapter discusses the characteristics and the scope of the data, the period of the study and the reasons behind the selection of this period. Considering that budget is the main tool of public financial management, which transfers authority from parliament to government and budget officials and also determines the rules and regulations for the execution of power; budget expenditures are reclassified in line with the methodology developed by OECD, in order to analyze power relations between different social sectors. Besides, budget revenues are also reclassified considering the distribution of social sectors providing resources for budget expenditures. Consequently, it can be possible to evaluate transfer of economic power among different social sectors through the redistribution initiative of state budget.

#### **4.1. Period of Study**

This study covers the period of 1980-2003. This period starts with an important breaking point in the Turkish economic and political history, which is January 24, 1980 economic program. The economic program introduced a significant devaluation (TL/\$ devaluated from 47.1 to 70); prices of the products of state companies increased substantially and strong export subsidies put into practice. January 24 economic program was introduced by Süleyman Demirel's minority government. The reason for considering the program as a breaking point is its encouragement of financial liberalization and outward orientation by introducing subsidies on export and foreign direct investments. The time period of analysis ends with the introduction of analytical budget classification in 2004 which is another

significant break, resulting in a structural change in budget data. This change caused a break in time series and missing of ability to compare data in terms of budgetary programs.

As discussed in details in Chapter 5, this time period involves major changes towards the transformation of Turkish economy under neo-liberal policies, and renewed mechanisms for redistribution of economic resources. Boratav, Yeldan and Kose (2000) divided this period into two broad phases. Commodity trade liberalization, export promotion and suppression of wage incomes dominated the first period which is 1981-1988 and populist policies, increased public expenditures and investments on social infrastructure dominated the second phase which is 1989-1998. We can add the third period as 1999 and onwards which is crisis and post-crisis restructuring. Turkey experienced a number of significant economic crises during this period and introduced several IMF supported economic programs. Same period is categorized under three phases by Öniş and Bakır (2006) as de-regulation phase of 1980-1989, rhetorical transition and institutional crisis phase of 1989-2001 and re-regulation phase of post 2001 period.

Besides, major developments, such as shifting from a planned economy to market economy for the allocation of economic resources, resulted in structural changes both in economic and social life. Especially after the liberalization of interest rates, a competition among banks and money brokers observed. After a long period of negative real interest rates, television adverts which were inviting investors for high return, raised attention in the public for financial matters. Awareness of society on economic affairs increased. Accordingly, newspapers started to pay special attention to economic matters, for instance, Cumhuriyet, a newspaper that is heavily concentrated on politics, introduced a special page for economy in 1981, (Cemal, 2000).

Bankruptcy of money brokers created a significant social discomfort in early 1980s. Increasing inflation and dollarization deteriorated the income distribution rapidly. There were important attempts to establish financial markets. Interest rates were deregulated, capital controls were removed, and exchange rate regime was changed to a more liberal structure. Protectionist import substituting policies were removed and the Customs Union with the EU was established. Besides, new institutions were founded, such as Undersecretariat of Treasury and Foreign Trade (UTFT), Capital Market

Board and Istanbul Stock Exchange. Money market was opened at Central Bank and domestic borrowing auctions of Treasury were introduced. Banking sector regulations were changed. As a result Turkey became an open economy and integrated into global markets.

Although there has been a continuous trend in liberalization of trade and finance for one direction, between 1980 and 2003 there has been a cyclical change in fiscal policy. At the beginning, public finance was reshaped in line with the liberalization of economy as a whole, tax regime was reviewed and new taxes, such as value added tax, were introduced, expenditure patterns were accommodated and EBFs were founded to support some sectors. During 1990s, unsustainable patterns of fiscal policy caused significant troubles and Turkey faced with severe crises. Finally, a period of fiscal recovery started, budget reforms were initiated, budgetary scope was widened and EBFs were closed. Therefore, the period of 1980-2003 is selected for testing the use of budget as an instrument for redistribution of power and status.

#### **4.2. Legislation**

State budget is submitted to the Parliament and accepted as a law. Therefore, Annual Budget Law itself has a legitimate power and it is bindery for both legislature and executive organs of the state. Budget law includes two main parts: the articles and the tables. The articles set the boundaries of the authority of both Minister and MoF in implementing the budget, and covers rules and principles of budget policy and fiscal control. The annex tables of the Law include the expenditure ceilings of ministries and administrations (Table A); expected revenue collections (Table B); main regulations on revenue raising (Table C); salaries of members of Sivas Congress and first Grand National Assemble; salaries of others whom paid by motherland services appropriation (Table Ç); regulations on contracts longer than one year (Table G); list of daily travel allowances due to articles 33 and 50 of Allowances Law (Table H); monetary limits which should be listed in budget law due to various laws (Table İ); fees for supplementary lectures, conferences and overtime payments (Table K); number of houses, facilities, telephones, fax machines (Table L); prices of rooming houses provided by Ministry of Education and MoH(Table M); animals will be purchased for army (Table O); average purchasing prices of motor vehicles and forecasted daily rents for motor vehicles which participate in

mobilization practice (Table P); formula for registration of expenditures (Table R); maximum price of motor vehicles which will be purchased and list of motor vehicles owned by ministries and administrations (Table T).

In line with the budgeting right of the parliament, governments get authority of revenue collection and spending for public expenditures for one year through the budget law. However, as mentioned above, the proposal submitted parliament by the government may have significant deviations from the budget law at the end of year. The government uses most of its authority given by the parliament through the Minister of Finance. However, time to time the final bill shows that by using the authority given by the Cabinet, Minister of Finance and budget officials make significant changes in allocations between the programs and government may abuse its authority. However, the difference between the budget law and final account law is not within the concentration area of this study, but it may be analyzed in further studies in order to complement the discussions stated in this study.

### **4.3. Data**

The data source of this study is the annual budget laws and their annex table, A and B. Table A involves the appropriations for spending of general budget institutions. Table B includes the expected amount of revenues collected by the government.

As stated in Chapter 3, until 2004, budgets were classified in line with PPBS. Table A involves data according to five categories from high level program to detailed expenditure items as the following;

- program,
- sub-program,
- allocation type,
- project,
- expenditure item

During the data collection, it is discovered that including the Ministry of Finance, none of the public agencies has the text of budget laws in electronic form before 1995. Providing annex tables in electronic form is almost impossible since there is no electronic data for annex tables till 2007 and it should be remembered that this study covers the period of 1980-2003.

Besides, even it is outside of the analysis period Table A is electronically available only in aggregates for 2007. Program detailed version, as seen in budget law, is only available for 2008 and 2009.

Table B is electronically available since 2005, which is again starting from a year after 2003. Therefore all of the necessary data had to be transferred into electronic environment for the whole period of analysis. During this process, the data is analyzed by expenditure items and categorized according to major items such as personnel expenditures, current expenditures, investment and maintenance, and transfers by program. Investment and transfer items are separately reviewed and detailed lists regarding these items are incorporated into database. The database, created by myself, has around 2500 lines and developed in MS Excel.

Regarding the data compilation; unification, separation and abolishing of ministries or any spending institution create a significant problem, because of the switching of programs and expenditures between institutions. It makes difficult to classify data under same categories and required to list many additional expenditure items. It is also observed that, even there is no unification or separation, the expenditure items and the programs may be categorized under different institutions, their names may be changed or they may be abolished. Actually, this refers to a considerable change in the functions of the general budget entity. At least it implies changing priorities. A ministry, an undersecretariat or a general directorate itself, and every spending program has its own stakeholders and there is a reason for the existence of a program in the budget. Therefore, these kinds of changes which may be observed in case of government changes have some effects from different aspects. However, from the data gathering and analysis perspective, it had been definitely the main obstacle.

As mentioned previously, and will be discussed in general from the aggregate spending and revenues perspective in Chapter 5, final bill may differ from budget law. This study explores the will of public finance in redistribution of power and status, therefore realization of this will and to what extent public finance be able to implement its policy preferences are not in the scope of the analysis. Consequently, fiscal data attached final bill is not analyzed.

#### **4.4. Re-classification of data**

Raw data in the annex tables of annual budget law are not suitable for a sociological analysis, since it is classified in programs and institutions in order to document the allocation limits. Until the introduction of analytical budget classification, the data could not be provided by functions and purpose of programs. Therefore, data should be re-classified to squeeze the way of governments for the execution of power through redefining public goods, and determining the beneficiaries of financial and social transfers. However, in some programs, data do not exactly fit the requirement of classification used in this study. Therefore, expenditures and revenues stated in the budget law are reclassified and some approximations are made to associate some sub-programs with social groups.

##### **4.4.1. Re-classification of Budget Expenditures**

In order to evaluate the influences of multilateral and supra-national organizations and make international comparisons possible, the re-classification of budget expenditures is mainly based on the microeconomic classification of OECD (2005), which aims to classify state expenditures on the basis of economic motive. OECD asserts that this classification allows analyzing the impacts of budgetary allocations. Microeconomic classification is only applicable for a number of countries Canada, France, Germany, Italy, Mexico, Netherlands, New Zealand, Spain, Sweden, United Kingdom and United States in 2005 study of OECD.

Similar to Turkey's budget classification, budgets of OECD countries was based on type of input and organizational structure until recent periods. Therefore, re-classification of budget expenditures in line with the OECD's microeconomic classification creates an opportunity to compare program classified budget figures. Besides, considering that the analysis period of this study ends in 2003, the microeconomic classification of OECD may create a basis for future works to make a similar analysis that is done in this study, because it has some similarities with the functional classification which introduced recently in Turkey. Moreover, IMF's GFS Manual 2001 is used as a reference for re-classification of expenditures.

In line with the OECD study, a breakdown of publicly provided goods and services is made as public goods and private goods, in order to make cross country comparison of re-allocation available. As it will be discussed

in details in Chapter 5, public services like education and health are treated as private goods in OECD study, since those are motivated by considerations of income support as well as external effects. Besides, education and health are not considered as pure public goods, considering that public goods are non-excludable which means nobody can be excluded from the consumption of the good, and non-rival in consumption of people which means there is no decrease in the consumption possibilities for persons who did not consume. Providing of health and education by states, historically, may create a confusion that these services are pure public goods but the main reason why these services have been provided by state may be their critical importance on the accumulation of social capital and providing social order, other than their characteristics as public goods. However, as discussed in the previous chapters, recent developments indicate that major functions of state is being re-determined in line with the changing relations between state and society; and increasing global influences.

On the other hand, even publicly provided services such as education and health are not considered as pure public goods, re-definition of services, provided by states, as public or private good serves as an instrument to transfer for the ownership of means of productions from public sector to market sector. Therefore, re-classification of expenditures has a great importance in terms of redistribution of power and status among different social sectors.

Besides, considering that public goods theory is not a novel concern and people cannot agree on the determination of public goods since they try to lay whole burden to others (Buchanan and Musgrave, 2000) while benefiting from it. The definition of public good is clear in the literature (Samuelson, 1954; Buchanan, 1968) however in practice treating such public services as a public good may not be easy since the determination of public goods mostly done by politicians and technicians. Therefore, to avoid from the drawbacks of the controversial classification of public goods; as recommended by Musgrave (Buchanan and Musgrave, 2000), both expenditure and tax sides of the budget taken into account jointly and the classification of public goods used for the determination of redistribution of means of productions owned by the state. For making this analysis from a cross-country perspective, this study borrows the coverage of the mentioned OECD study for the public goods and publicly provided private goods and

makes some changes to adopt Turkey’s annual budget data and develops a three layer public good and private good classification.

OECD classification is mainly based on the functional classification of GFS, Classification of Functions of Government (COFOG) and economic classification. While using OECD classification as a reference point, Turkey’s annual budget data is classified according to GFS and COFOG definitions.

Re-classification of data involves classification of the public goods and private goods in three levels (Table 3). This classification also includes the financial and social transfers to market, individuals or some social groups.

**Table 3. Re-classification of Budget Expenditures**

<b>Layer I</b>	<b>Layer II</b>	<b>Layer III</b>
<b>Public Goods</b>		
	Defense	Military defense Civil defense
	Public safety and order	Police services Fire protection Law courts Prisons Public safety and order affairs not classified elsewhere
	Infrastructure	Construction of Roads Railways waterway and ports oil and gas pipelines maritime and airports other infrastructure Expenditures on communication infrastructure Maintenance of infrastructure
	Basic research	Fundamental research, R&D
	Interest	Interest
	Financial transfers to	Local administrations Funds Revolving Funds Contributions for multilateral organizations

(Table 3. continues)

	Financial transfers not classified elsewhere
General public services	Executive organs Legislative organs External affairs Financial and fiscal affairs Foreign economic aid Public debt transactions General services and affairs not classified elsewhere
<b>Private Goods</b>	
Development assistance	Flows to other countries Multilateral organizations for flows to aid recipients Grants for representative or commercial purposes Transactions for export facilitation Acquisition of securities issued by development banks at market terms
Subsidies to market sector	Agriculture Forestry Fishing and hunting Hunting Energy Mineral resources and coal Petroleum and natural gas Electricity Non-electric energy Mining Manufacturing Construction Transport Road transport Water transport Railway transport Air transport Communication Broadcasting and publishing Environmental policy Tourism Housing and community amenities Water supply Street lightening Banking - Finance and Insurance

(Table 3. continues)

	Economic enterprises Other subsidies to market sector
Public contributions to non-profit sector	Recreational and sporting affairs Cultural affairs Religious affairs Research Public contributions to non profit sector not classified elsewhere
Education	Pre-primary and primary education Secondary education Religious Education Tertiary education Universities and other higher education Education not definable by level
Health	Medical products Hospital services Public health services Health not classified elsewhere
Social services	Individuals Families Handicapped Elderly Unemployment Social services in kind except labor market subsidies and housing subsidies not classified elsewhere
Social transfers	Remainder of social security and welfare after social services subtracted Individuals Non governmental organizations Social transfers not classified elsewhere

Source: Reproduced based on OECD (2005), GFS (2001) and Annex Table A of Annual Budget Laws

In line with the classifications placed in OECD (2005) and GFS (2001), coverage of public goods is defined as defense, public safety and order, infrastructure, basic research, interest and general public services. On the other hand, development assistance, subsidies to market sector, public contributions to non-profit sector, education, health, social services and social transfers are categorized as private goods (Table 3).

Defense includes both civil and military defense. Military defense involves administration of military defense affairs and services, operation of land, sea and air defense forces, personnel and other non-combat defense forces. Civil defense covers administration, operation or support of civil defense forces and formulation of contingency plans.

Administration of police services, operation of regular and auxiliary police forces – excluding police colleges; operation and support of civil and criminal law courts, judicial system, prisons and other places considered as the services under the category of public safety and order. Besides, activities like formulation, administration, coordination and monitoring of overall police, programs and budgets are related with public order and safety. According to COFOG, preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation and statistics on public order and safety are take place in public safety and order.

All investment expenditures including transportation and communication categorized as infrastructure. OECD classification is adopted for classification of infrastructure, since it is argued that even there are significant privatizations in harbors and airports and toll road, the bulk of the transport infrastructure is still financed from general budget all over the world and characterized by non-rivalry. Besides, pricing is different from the pricing of market sector. This is similar in communication sector for the period of analysis since privatization of Telecommunication Company completed in 2005 and private GSM companies entered into market in 1998.

In line with the OECD classification, basic research is defined as the administration and operation of government agencies for experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundation of phenomena and observable facts. On the other hand, GFS definition excludes applied research and experimental development.

Interest payments on loans and other interest bearing liabilities of government classified as interest. It is categorized as public goods, in line with the OECD and GFS classifications.

Financial transfers indicate a political will to achieve an objective on specific purposes. These political objectives are reflected to the sectors, like

manufacturing or public health services considering the aim of the expenditure. Transfers that are not allocated to particular function such as transfers to local administration and EBFs are not classified in this category.

Administration, operation or support of executive and legislative organs; administrations of financial and fiscal affairs and services, management of public funds and public debt, operation of taxation schemes, operation of treasury and ministry of finance, overall planning and statistical services; administration of external affairs and services; administration of economic aid to countries either directly or through international organizations classified as general public services.

Private goods provided by state are collected under seven categories and this classification is developed by considering the OECD (2005) study and GFS (2001) manual. These categories are development assistance, subsidies to market sector, public contributions to non-profit sector, education, health, social services and social transfers.

Official aids to other countries with the promotion of economic development and welfare are classified as development assistance. It includes export facilitating credits which have at least 25% of grant element.

Subsidies to market sector are classified similar to financial transfers. As a result of political objective, unreturned payments of government entities that are transferred to market sector are classified as subsidies to market sector. In line with the OECD (2005) subsidies are considered as current transfers, not capital transfers and payable to producers not to final consumers.

Government's transfer to non-profit sector for goods and services other than social services are classified as public contributions to non-profit sector. It involves transfer for recreational and sporting affairs, cultural and religious affairs, broadcasting and publishing.

Educational services provided to individuals and students on a collective basis are categorized as education. In line with the OECD (2005) formulation and administration of education policy, setting and enforcement standards, and schools in different levels are included in the category, while subsidies for education are excluded.

Parallel to education, health also includes expenditures on services provided to individual persons on a collective basis and formulation and administration of policy, setting and enforcement of standards, hospital services, medical, dental and paramedical services, public health services are considered in health category.

Social benefits considered as social services. Direct transfers from government to households as consumers and non-profit organizations serving to households are accepted as social benefit. Residential care for elderly, rehabilitation service for handicapped or services for families and social work are all categorized as social services. Besides, including sickness benefits, retirement pensions and death benefits, social security benefits are part of social services. In-kind transfers to individuals such as civil servants are categorized as social transfers, in addition to remainder of social security expenses other than social services.

O'connor (1973) indicates that particular expenditures and programs of budget may be explained in terms of power relations within the private economy, because as believed by many economists, government budget can be increased or decreased to compensate for private spending. The volume of public spending is determined by and related to the volume of private spending. Therefore, the growth of the state sector and its spending is functioning increasingly as the basis for the growth of the market sector and total production.

Budget classification does not allow employing social groups, argued in the theories on class and social stratification, to analyze the redistribution influence of budget. Considering the economic activities, socio-economic relations in a society may broadly be classified as state and market sector and this is the only classification finds its reflection in the state budget. Some of the expenditures and programs of the budget are directly related to operational costs of running state, such as legislation, juridical, execution and military. These types of goods and services provided by state are considered as pure public goods. Rest of the expenditures and programs are classified as mixed goods or private goods which may be associated to market sector. O'connor (1973) analyses market sector under two subgroups; monopoly sector that is organized by large-scale capital and competitive sector which is organized by small business. Based on the O'connor's breakdown, public services which may be categorized as mixed good or

private good are analyzed considering the interest groups who mostly benefited from these goods. Excluding financial transfers, public goods are not included in this analysis since these are non-excludable and non-rival.

Considering the distribution of value-added and the amount of turnover among the sectors, budget tables are formed according to the following classification. Therefore, as indicated below, state, market sector and the household represents are the main groups in a socio-economic structure (Table 4). Some of the programs and expenditures are allocated to secure the existence of state while some others have redistributive influences through transfers to market sector and households. Since it is an open economy, there is always an external world and some of the public resources are transferred to other countries, multinational bodies and foreign private sector companies.

**Table 4. Sector Classification of Budget Expenditures**

<b>Layer I</b>	<b>Layer II</b>	<b>Layer III</b>
State Sector	Legislation Juridical Execution - Bureaucracy Military	
Market Sector	Large scale capital  Small and medium scale capital	Mining and quarrying Manufacturing Electricity gas and water supply Finance and Insurance Services Transport, storage and communication  Agriculture, forestry and fishery Construction Wholesale and retail trade Hotels and restaurants Real estate, renting Education Health and Social Works Other sectors
Households		
External World		

Source: Own classification based on the O’connor (1973)’s classification, and the lists of ISO 500 and Capital 500 Companies

State sector consists of personnel expenditures of all ministries and any programs of legislation, execution, juridical and military. Subsidies for lunch and overdue personnel payments are considered under this category.

Market sector includes all subsidies to market sector, capital investment portions of education and health expenditures, social security expenditures and public contributions to non-profit sector; research and development; social transfers to public employers' union, revolving funds and tax refund. Subsidies to agricultural sectors, expropriation expenditures are also counted as transfers to market sector. Transfers to media organizations and associations of media members are also classified in this category. Considering that state economic enterprises produce private goods and operate in market sector, duty losses and capital transfers to state economic enterprises treated as a part of subsidies to market sector.

In order to diversify large scale capital and small scale business, list of companies which are the biggest in terms of turnover is employed to determine the sectors controlled by large scale capital. Because, budget transfers can be classified according to the sectors that represents interest groups and allows analyzing of redistributive effects of budget transfers. Consequently, ISO 500 that is the list of Turkey's biggest industrial companies in terms of revenue is used to determine sector concentration of large scale capital. ISO 500 list has been prepared beginning from 1968 and includes; company name, ranking, ownership structure, turnover, sales from production, gross value-added, capital, net asset value, exports, and number of employee. Türkan (2005) shows that as of 2003, the share of first 500 industrial companies represents the 52.6 % of total value-added and 61.1% of total production in manufacturing sector. On the other side, a presentation on TUSIAD's web site asserts that as of 2004, share of TUSIAD members in Turkey's value-added is 37.5 % and the members of TUSIAD take place in top 2000 establishments of Turkey.

In addition to ISO 500 list, a more comprehensive list of top 500 companies has been prepared by Capital magazine since 1999. Capital 500 list includes only private sector companies. Besides, differentiating from ISO 500 list which only includes industrial sector companies, Capital 500 list covers all sectors. However, the coverage of Capital 500 list is less comprehensive comparing to ISO 500 list, since it only includes the turnover amount, profit and loss pre-tax, exports, net assets, capital, number of employees, sector and the city.

**Table 5. Capital 500 Companies (Sector Breakdown)**

	Number of Companies		(In percent to total turnover)	
	2003	2004	2003	2004
C. Mining and quarrying	5	9	6.5	10.0
D. Manufacturing	299	301	21.7	22.5
E. Electricity gas and water supply	21	15	52.4	60.6
F. Construction	9	10	5.2	4.5
G. Wholesale and retail trade	116	112	5.8	4.4
H. Hotels and restaurants	0	0	0.0	0.0
I. Transport, storage and communication	50	49	16.4	15.7
K. Real estate, renting	0	0	0.0	0.0
M. Education	0	0	0.0	0.0
N. Health and social works	1	1	2.5	2.9
O. Other	0	0	0.0	0.0
<b>Capital 500 companies(*)</b>	<b>501</b>	<b>486</b>	<b>13.4</b>	<b>12.3</b>

(\*)Due to the agricultural and forestry companies in the list, total number of Capital 500 companies differs from the published figures.

The share of Capital 500 companies in turnover is 13.4 % in 2003 and 12.4 % in 2004 in industry and services, by using the economic activity indicators sectors classified in NACE<sup>11</sup> terms by TUIK in December 2008. The share of Capital 500 companies in total turnover increased 21.7 % in manufacturing sector in 2003 and 22.5% in 2004. More impressive figures occur for electricity and gas sector since the share of Capital 500 enterprises reaches to 52.4 % in 2003 and 60.6 % in 2004, reminding that there are only 21 companies in 2003 and 15 companies in 2004, while the number of manufacturing companies is 299 in 2003 and 301 in 2004. Another interesting point from Capital 500 list is regarding the health sector. Even there is only 1 company for both years in the list, its share is 2.5% in 2003 and 2.9% in 2004 (Table 5).

Households consist of public contributions to non-profit sector such as culture, religion, recreation and sport. Social security expenditures and social transfers to handicapped, individuals, families and unemployed are also public spending for households. Transfers to associations, foundations and professional organizations are considered as transfers to households.

<sup>11</sup> NACE (Nomenclature statistique des Activités économiques dans la Communauté Européenne) is statistical classification of economic activities and developed by European Union since 1970,

External world mainly covers transfers to international organizations in terms of capital transfer or annual fees. Besides, transfers to other countries also counted within this category.

#### 4.4.2. Re-classification of Budget Revenues

Similar to budget expenditures re-classification of budget revenues aims to classify funds raised by the state either by taxation or through the mechanisms other than taxation, such as dividends and fines, on the basis of economic motive. This classification allows analyzing the impacts of revenue collections.

Turkey’s revenue classification is based on the types of revenues. IMF’s Government Finance Statistics (GFS) Manual 2001 is used as a reference for re-classification of revenues. Revenues classified under three categories which are direct taxes, indirect taxes and non-tax revenues (Table 6). Musgrave and Musgrave (1989) asserts that the distinction about direct and indirect taxes is ambiguous since direct taxes are defined as the taxes which are imposed initially on the household that is meant to bear the burden; while indirect taxes are imposed at some point in the economic system but which are meant to be shifted to whomever is supposed to be the final bearer of the burden.

**Table 6. Classification of Budget Revenues**

Layer I	Layer II
Direct Taxes	Income Tax
	Corporate Tax
	Real Estate Revaluation Tax
	Financial Balance Tax
	Real Estate Tax
	Motor Vehicle Tax
	Inheritance Tax
	Business Tax
	Additional Tax
	Motor Vehicle Purchasing Tax
	Real Estate Purchasing Tax
	Building Construction Tax
	Title Deed Fees
	Judgment Fees
	Notary Fees
	Passport and Consulate Fees
	Traffic Fines
	Other Fees
	Customs Tax

(Table 6. continues)

	Transportation Infrastructure Fee
	Abroad Travelling Fee
Indirect Taxes	Value Added Tax
	Petroleum Consumption Tax
	Banking Transactions Tax
	Stamp Duty
	Sugar Consumption Tax
	Transportation Tax
	PTT Services Tax
	Spor Toto Services Tax
	Import V.A.T.
	Other Foreign Trade Taxes
	Tax Removals
Non-Tax Revenues	Revenues of State Controlled Companies
	Insurance Companies' Payments
	Rights from Petroleum
	State Share from Petroleum
	Rights from Mines
	Revenues from Play cards
	Foreign services
	Incomes for Special Expenditures
	Dividends of Central Bank
	Transfers from RTUK
	Revenues from immovable
	Revenues from movables
	Revenues from Treasury shares
	Transfers from Revolving Funds
	Dividends of SOEs
	Interest
	Receipts from concessional loans
	Receipts from loans
	Fines
	Other revenues
	Special revenues
	Transfers from Petroleum Stability Fund
	Transfers from Stability Fund
	Transfers from Tekel Price Increases Fund
	Transfers from NATO Account
	Transfers from Agricultural Export Fund
	Transfers from other funds
	Transfers from Municipal Shares
	Revenues of Budgeted Funds
	Transfers from Compensation Fund
	Special Revenues according to Law 4306

Source: Own classification based on the Annex Table B of Annual Budget Laws

As the main revenue items, each type of taxes, mentioned above, have different influences on different sectors. Therefore, state revenues are reclassified in terms of the final payer of the state revenue according to the sectors as state sector, market sector, households and external world. Musgrave and Musgrave (1989) classify various taxes according to their impacts. According to them, there are four categories that taxes may be imposed in the product or in the factor markets; on the seller's or the buyer's side of the market; on households or firms; and enter on the sources or uses side of taxpayer's account. Musgrave's classification allows us to examine the redistributive effects of taxes among different sectors.

**Table 7. Sector Classification of Budget Revenues**

<b>Layer I</b>	<b>Layer II</b>
<b>Sectors</b>	<b>State Revenues Obligated to Pay</b>
State Sector	Revenues of State Controlled Companies Dividends of Central Bank Transfers from RTUK Receipts from concessional loans Receipts from loans Transfers from Municipal Shares
Market Sector	Income Tax Corporate Tax Real Estate Revaluation Tax Financial Balance Tax Real Estate Tax Business Tax Additional Tax Real Estate Purchasing Tax Building Construction Tax Title Deed Fees Customs Tax Transportation Infrastructure Fee Transportation Tax Other Foreign Trade Taxes Insurance Companies' Payments Dividends of SOEs

(Table 7. continues)

	Revenues from Treasury shares
	Transfers from Revolving Funds
	Rights from Petroleum
	State Share from Petroleum
	Rights from Mines
	Foreign services
	Revenues from immovable
	Revenues from movables
	Interest
	Other revenues
	Special revenues
	Transfers from Petroleum Stability Fund
	Transfers from Stability Fund
	Transfers from Tekel Price Increases Fund
	Transfers from Agricultural Export Fund
	Transfers from other funds
	Revenues of Budgeted Funds
	Transfers from Compensation Fund
	Transfers from Compensation Fund
	Special Revenues according to Law 4306
Households	Motor Vehicle Tax
	Inheritance Tax
	Motor Vehicle Purchasing Tax
	Judgment Fees
	Notary Fees
	Passport and Consulate Fees
	Traffic Fines
	Other Fees
	Abroad Travelling Fee
	Value Added Tax
	Petroleum Consumption Tax
	Banking Transactions Tax
	Stamp Duty
	Sugar Consumption Tax
	PTT Services Tax
	Spor Toto Services Tax

(Table 7. continues)

Import V.A.T.  
Tax Removals  
Revenues from Play cards  
Incomes for Special Expenditures  
Fines

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External World Transfers from NATO Account

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Source: Own classification based on the Annex Table B of Annual Budget Laws

From the redistributive perspective, taxes may be imposed on firms, representing the market sector, as the buyer or the seller, while it is same for the households (Musgrave and Musgrave, 1989). Therefore, both firms and households may be imposed taxes in different markets either as buyer or seller. For instance, firms are obliged to pay corporate tax and property taxes as buyer in factor market, while they are paying some product taxes such as petroleum in product market as the seller. Similarly, households pay consumption taxes in product market as buyers while they are paying income tax in factor market as sellers.

Value added tax has a special characteristic since in practice it is paid both market sector and households. A firm pays value added tax in product market as seller but pays in factor market as buyer. Households pay value added tax in product market as buyer. On the other hand, value added taxes paid by the firms may be shifted to households as the final bearer of the burden.

Non-tax revenues are mainly the revenues coming from the shares of state owned companies as dividend or shares from the turnover. Besides, transfers from such funds and fines and similar revenues are also classified as non-tax revenues.

Based on the methodological approach stated above, budget revenues and expenditures are analyzed in Chapter 5. Budget expenditures are classified in line with the above mentioned approach of OECD (2005) and GFS (2001). Redistributive outcomes of budget expenditures are analyzed through the public and private goods provided by state. Besides, transfers to different sectors and breakdown of revenues collected whether from the market sector or households gives significant outputs in order to understand redistributive policies of governments.

## **CHAPTER 5**

### **REDISTRIBUTION OF POWER AND STATUS THROUGH THE BUDGET**

This study explores how state budgets work for redistribution of power and status, considering the theoretical framework mentioned in Chapter 2 and the limits of state budget as an instrument stated in Chapter 3. Keeping in mind that budget is the most critical tool for the implementation of state's redistribution policies, the coverage of theory widens from sociological theory to public finance theory and state theories. Adversely, budgets provide limited capacity for an analysis to determine redistribution of public resources among social groups and the influences behind the decision making processes. As emphasized by the OECD study (2005) budget data does not allow identifying the impact of any particular institution and factor. Therefore, the budget classification itself creates a constraint on determination of the particular interest of political factors, excluding the influences of electoral periods and the change of prime minister's office. Such partisan effects like conservative or redistributive policies may also be discussed by analyzing the budget data in detail. The changes in the appropriations may indicate the evolution of budgetary patterns. Consequently an insight on the priorities of state and a new balance which ought to be achieved or at least cannot be avoided may be determined by analyzing the budget data in a time horizon. However, it is a fact that budgetary institutions have their own objectives and the decisions are not purely taken under political preferences or supply and demand conditions.

Despite these limitations of budget data on the analysis of the impact of the state on redistribution, changing patterns in state's spending and revenue collection preferences and the influences of different social sectors on the state budget can still be extracted by analyzing the budget. In Turkey, the period starting from 1980 covers a number of economic and financial crises, consecutive economic and political reforms and initiatives for change. Therefore, elections, the period of the office of governments, breaking points in fiscal policy, public financial management and economic policy management give some insight on the reasons behind the redistribution of power and status in Turkey.

## **5.1. Socio-economic and Political Environment**

The analysis period of this study covers 1980-2003 period, however as a breaking point in Turkish economic history, January 24, 1980 economic program was introduced in order to recover economic and political instabilities raised during 1970s. Turkey experienced a significant balance of payments crisis during late 1970s because of the influences of oil crisis in 1974 and 1978. Due to the weakness of capital inflows including petroleum, many critical intermediary goods and raw materials could not be imported. Additionally, political instability and terror deteriorated production base in the economy. As a result strong supply led inflation was observed. Based on this economic and political structure, post 1980 liberalization policies were developed and those were created breaking point in Turkish economic and political history. However, starting from 1982 broker's crisis, Turkey experienced significant economic and financial crisis in the following two decades.

### **5.1.1. Economic and Political Developments**

Post 1980 period was denominated with liberalization and it has three distinct phases. First period is between 1980 and 1989 which addresses the introduction of liberal free market system and outward-oriented industrialization in order to replace import-substitution economic policies. Öniş and Bakır (2006) called this period as “de-regulation phase”. Second phase starts in 1989 and ends in 2001. This period involves political instabilities and severe economic and financial crisis; including historically deepest crisis of Turkey experienced in 1994 and 2000 and 2001. Second phase of post 1980 period is called as “rhetorical transition and institutional crisis”. Third period starts in 2001 and continues. This term indicates a significant improvement in economic performance and stable political structure. Post 2001 era is called as “re-regulation phase (Öniş and Bakır, 2006).

De-regulation phase started with a stabilization and liberalization program which was initiated on January 24, 1980. This program was aiming to introduce a free market system and switch from an import substitution system to an outward-oriented industrialization (Celasun and Rodrik, 1989; Öniş, 1998; Yeldan and Köse, 1998). January 24, 1980 program was supported by IMF, World Bank and OECD both during the preparation and

implementation periods. Turgut Özal, the Undersecretary of Prime Minister directly involved in the program design and negotiations with international organizations and lender countries.

However, the military coup on September 12, 1980, suspended Turkey's economic and social life and caused a breakdown in party politics by banning all political parties. During the period 1980-1983, a military government was in the office but Özal assigned as the minister in charge of economic affairs and the economic program, was implemented under an authoritarian government.

January 24, 1980 program introduced with a strong devaluation and the exchange rate policy was changed to a flexible exchange rate. Instead of having devaluations with high percentage (Boratav, Yeldan, 2000), the authority of exchange rate determination transferred from MoF to Central Bank and Turkish lira devaluated daily (Soylu, 1999). Military government depressed real wages severely and at the same time prices of publicly offered good and services increased steadily (Kazgan, 2005) since there was no productivity increase.

In the financial market's side, caps on the interest rates of commercial banks were abolished and interest rates were freely determined by banks. With liberalized interest rates, a competition increased to attract funds. Banks issued certificates of deposit (CD) which were exempt from income tax. "Bankers" who were money brokers, marketing banks' certificates of deposits, actively involved in the financial system. The number of "bankers" increased rapidly and background of some of them were varying from carpenter to waiter. Accordingly, most of them had no experience in banking or finance. The authorities did not even know how many bankers existed. Some of them were also collecting deposits for their own account. Soon the case became an epitome of Ponzi finance; to pay the interest and principal of the previous customer, the banker needed the next lucky customer. In the heyday of the bankers when they were mobilizing funds on the order of billions of dollars, there were few registration requirements or regulations in general that set the rules of the game for bankers. This situation continued around two years and ended in 1982 when Banker Kastelli, real name was Cevher Özden who was the largest and the most credible of the bankers, fled the country secretly following the liquidity squeeze that was inescapable

(Yülek, 2008). Banker Kastelli's collapse switched financial discontent to a crisis and Banker Crisis was the first crisis of post 1980 liberal period.

Following the crisis, the first election after the military coup was held in 1983 and it resulted in a significant change in the economic, social and political structure. Özal's center-right, liberal-conservative Motherland Party (ANAP) launched a strong liberalization policy in economy by adopting a free market economy through a large-scale privatization movement. Due to the end of grace period in external debt service, provided by restructuring agreements in 1979 and 1980, foreign debt service was increased. However, public sector's limited access to external resources directed government to domestic market in order to finance budget deficit. Issuance of government securities through regular treasury auctions started in 1985 and secondary market for government bonds was set up to enable government securities to be auctioned under a free market condition. In 1985 a significant part of export subsidies were abolished according to the agreement between Turkey and GATT. TL was devaluated against other currencies for the first time in 1986, since 1980,.

In addition to liberal economic policies, ANAP government initiated social changes in the public sphere such as removal of articles 141, 142, and 163 of the Constitution, which were creating obstacles for freedom of thought. One of the important outcomes of this development was facilitation of the expression of Islam to a greater degree than before (Küçükcan, 2003). In the international arena Turkey had applied for full-membership to the European Community in 1987, but the outcome of the application was negative (Öniş and Bakır, 2006).

Free elections held in 1987, after a referendum for the return of politicians who were banned from political arena. Opening up the political system and the competitive pressures forced political parties to resort populist policies, and governments to use public resources generously. The budget deficit and current account deficit caused a significant increase in external debt. The prices of state controlled products were significantly increased and TRL was controlled against US Dollar by keeping the price increases under the inflation. These measures caused an economic slowdown and a more severe economic crisis occurred during 1988 and 1989.

At the end of 1980s, financing of fiscal deficit through domestic borrowing was increasingly facilitated by foreign capital inflow. Domestic commercial banks borrowed from abroad at lower interest rates and invested in high yield domestic government securities. Restrictions on capital inflows/outflows were lifted and capital account liberalization was completed at the end of 1989. Besides, several incentives, such as enabling banks to hold government securities as part of their liquidity requirements, were granted to increase the demand for government debt instruments. Until 1991, governments continued to increase the share of government securities that had to be maintained by banks. By 1991, the liquidity ratio reached 35 percent, of which 5 percent cash and 30 percent government securities.

The rhetorical transition and institutional crisis phase starts with the liberalization of financial flows was completed with the decision to move to full convertibility in 1989, but this decision fully exposed the economy to the financial globalization. Because, financial system was not properly regulated, and large fiscal deficits and chronically high inflation let Turkish economy ill-equipped to deal with globalization (Rodrik, 1990). Besides, in the political side, Özal was elected President by the parliament after an abrasive political struggle on November 9, 1989. After a decade Özal's direct involvement in economic and political affairs ended and he left his chair both in the government and the Party to Yıldırım Akbulut. New ANAP cabined ruled more than a one and a half year but political turbulence continued in the party and first time in the Turkish political history a Prime Minister lost his leadership in his party during his term. Mesut Yılmaz won the elections in the party assembly and replaced Akbulut in June 1991.

Early general elections held on October 20, 1991 and Süleyman Demirel, the leader of True Path Party (DYP), a politically banned leader until 1987 referendum, and the Prime Minister of the cabinet that introduced January 24, 1980 program, took over the office.

In 1992, high level of domestic debt service payments led to a shift in government's deficit financing policy and the share of monetary financing was increased. On 17 April 1993, Özal died in his office period and Süleyman Demirel replaced him. Tansu Çiller became the leader of DYP and the Prime Minister.

After Özal left the cabinet, between 1990 and 1993, Turkey experienced large and growing fiscal imbalance; and economic performance became heavily dependent on highly volatile short-term capital inflows with costly ramifications (Öniş and Bakır, 2006). The public sector borrowing requirement rose from 7.4 percent of GNP to 12.3 percent ([www.dpt.gov.tr](http://www.dpt.gov.tr)). Hence, domestic debt stock increased more than double during the same period (from 6 percent of GNP in 1990 to 12.8 percent of GNP in 1993) ([www.hazine.gov.tr](http://www.hazine.gov.tr)).

Beginning from the second half of 1993, nominal interest rates on short term Treasury-bills were lowered considerably to cut interest expenditures. Furthermore, auctions of Treasury-bills with short-term maturity were canceled and the Treasury relied heavily on short term financing from the central bank. Besides, 1994 budget had no fiscal measures to overcome inflationary expectations that raised from the increases on government administered prices. Cancellation of Treasury auctions and excessive liquidity in domestic financial markets had raised concerns about a possible speculative attack; and following a sharp downgrading in Turkey's credit rating in January 1994, the economy was hit by a severe currency crisis (Öniş and Bakır, 2006).

On April 5, 1994, one week after the local elections, a stabilization program supported by a three-year stand-by agreement with the IMF was introduced. However, due to the difficulties in delivering structural reforms and the rising tension in the coalition government; early general elections came into agenda. The stabilization program ended in September 1995. On the other hand, customs union agreement with the EU became effective at the end of 1995. Enforcement of the customs union was another turning point for Turkish economy in integrating to the international economic environment.

The general election on December 24, 1995, was a milestone in Turkey's modern political history. The elections resulted in the reconfiguration of religion and politics in the public sphere. Under the leadership of Islamist politician Necmettin Erbakan, another politically banned leader of pre-military coup, Welfare Party (RP) gained the highest number of seats in the parliament but it was not enough to form a single party government (Küçükcan, 2003).

Macroeconomic instability generated by political turbulences and the lack of fiscal discipline dominated the economy in mid 1990s. Following general elections in December 1995, the coalition government changed two times in 1996. In June 1996, following the fall of the ANAP-DYP coalition, Necmettin Erbakan became the new Prime Minister (Küçükcan, 2003). Central government budget deficit jumped from 4 percent of GNP in 1995 to 8.3 percent of GNP in 1996; while the CPI inflation reached 100 percent by the end of 1997.

On February 28, 1997, Turkey's National Security Council "recommended" Erbakan a number of measures to guard the secular nature of the state, which Erbakan eventually signed after several days' resistance. In June 1997, Erbakan resigned because of the political and military pressure. Moreover, The Turkish Constitutional Court abolished the Welfare Party in January 1998, because of its constitutional violations of secularism. The court also banned Erbakan and five other party leaders from political activity for five years (Küçükcan, 2003).

Leaving aside the political traditions, Süleyman Demirel gave power to Mesut Yılmaz, the leader of ANAP, to establish the Cabinet, instead of Tansu Çiller, who was the leader of DYP, which was representing in the parliament with a higher number of members. A minority coalition government was established by Mesut Yılmaz, the leader of ANAP, including the Democratic Left Party (DSP). ANAP-DSP coalition introduced an IMF staff monitored program to reduce inflation in July 1998. However, Russian crisis erupted in August 1998. Large capital outflows observed in the aftermath of Russian crisis led to a surge in Treasury auction interest rates. On November 25, 1998 minority coalition was collapsed because Yılmaz lost vote of confidence in parliament over the allegation that he had rigged the sale of a state bank to a mafia-connected businessman. Before the government was brought down the parliament had decided to hold early elections in April 1999 (Cizre-Sakallıoğlu and Yeldan, 2000). Another minority government was established by Bülent Ecevit, the leader of DSP, to let country to have elections. Fiscal control was completely lost mainly because of the forthcoming general and local elections, which will be held in April 1999.

Thanks to the influences of capturing of Abdullah Öcalan, who was the leader of separatist Kurdish terrorist movement, DSP became the most

powerful party in the parliament but its power was not enough to have a single party government. As a result, Bülent Ecevit became the prime minister and DSP, Nationalist Movement Party (MHP) and Motherland Party established a coalition government. In addition to economic imbalances which were coming from mid 1990s, the earthquakes in August and November 1999 created a shock on fiscal balances. Central government expenditures rose from 29 percent of GNP in 1998 to 36 percent of GNP in 1999 and the budget deficit jumped from 7 percent of GNP to 12 percent. Deficit was financed completely through direct domestic borrowing. Consequently, net domestic debt increased from 24 percent of GNP to 41 percent.

1990s was a period of weak coalition governments with lack of political will and the capacity to impose fiscal discipline and to create an environment conducive to sustained economic growth. Therefore, Turkish economy came to an unsustainable situation because of chronic fiscal deficits and high rates of inflation. Besides, terrorism in the South-East Anatolia created an additional negative impact on investment while constituting a drain on fiscal resources (Öniş and Bakır, 2006). Leader-dominated political parties whose primary objective was to distribute patronage resources to their clients as opposed to develop coherent social and economic policies constituted one of Turkey's primary "democratic deficits" during the period. Yet another major element of the democratic deficit involved the politicization and weakening of the bureaucratic apparatus. These democratic deficits, in turn, had a significant spill-over on the economy resulting in a kind of economic structure characterized by pervasive rent-seeking and corruption (Eder, 2003).

After the completion of staff monitored program, a stand-by agreement signed with the IMF on December 22, 1999. The program led to a decrease in inflationary expectations. Nominal interest rates on government securities declined significantly. As of January 2000, the central bank moved from a pre-announced exchange rate path. In order to break downward rigidity in inflation, the program was supported by price and income policies, in which public sector prices, agricultural support prices, rents, the minimum wage, and civil servants' wages were to be increased in line with the targeted inflation. The program rested on an up-front fiscal adjustment and broad based structural reforms such as privatization deregulation of the banking

sector, and social security and tax reforms. In order to control overall public sector, all public sector accounts were consolidated, fiscal benchmarks were attained (Boratav and Yeldan, 2000).

However, during the IMF program, Turkey experienced “twin crises” in November 2000 and February 2001. Due to the concerns on the widening current account deficit on November 22, 1999 a financial distress emerged in domestic banking sector and it turned into a full-blown liquidity crisis in no time when the sustainability of the peg was started to be questioned. Demand for foreign currency increased sharply while the rapid liquidation of government debt instruments raised secondary market interest rates to very high levels. Overnight interest rates fluctuated between 18.9-45.9 percent and between 13.6-38.8 percent in April and July 2000, respectively. In September 2000 interest rates were fluctuated between 23.7-79.6 percent and peaked to 315.9 and 873.1 percent in November and December, respectively.

On December 6, 2000 the capital outflow stopped. In order to bail out troubled banks, government issued more than USD 6 billion worth of non cash securities which was around 3 percent of GDP. Following a short stability in January, interest rate hit 4,018 percent in February 2001. Deep crisis occurred on February 19, 2001 with the rush to foreign currencies. Consequently, Central Bank reserves decreased from USD 28 billion to 22.5 billion in a week. The exchange rate system collapsed and domestic currency depreciated by 40 percent in a day. The exchange rate system was replaced with free floating regime. In order to avoid a widespread banking sector bankruptcy, the government swapped TL denominated bonds, held by the banks, with FX denominated bonds which were issued as recapitalization bonds to the banks, and borrowed heavily from IMF to finance these operations. As a result, both domestic and foreign debt increased dramatically in 2001 (Öniş and Bakır, 2006). The IMF was criticized for these crises. It was argued that there were failures in program design such as insufficient focus on the problems of the banking sector, adoption of a controlled exchange rate system and inadequate financial assistance (see Öniş and Rubin, 2003; Akyüz and Boratav, 2003).

After the crisis, Recep Önal who was the State minister in charge of Treasury and economic coordination left his chair to Kemal Derviş, who was the Deputy Chair of World Bank. Derviş was one of the important figures of post crisis period which is called as re-regulation phase by Öniş and Bakır

(2006). Derviş was not a politician but he had a privileged position in the Cabinet and high popularity among the people. He initiated for the introduction of a new IMF program with a strong financial support which was the highest amount of funds Turkey provided ever from IMF. As a part of economic program he insisted on the introduction of top-down determined structural reforms, in coordination with IMF. His insistence increased tension among the coalition partners, especially created conflicts with the MHP ministers frequently. Besides, failing of Ecevit’s health deepened the coordination problems and both MHP and ANAP initiated early elections.

November 3, 2002 elections ended with a stunning victory for the newly established Justice and Development Party (AKP). Under the leadership of Recep Tayyip Erdoğan, who previous mayor of Istanbul and elected from Welfare Party, AKP won early elections with majority in the parliament. (Küçükcan, 2003) However, Abdullah Gül took the office of Prime Minister, since Erdoğan was banned during the elections and he was not eligible for to be elected as a Member of Parliament. Besides, the incumbent government's coalition members suffered with heavy losses. Compared to the 1999 election, DSP shrunk down to 1.2 percent of total votes. MHP lost 9.6 percentage points, while ANAP lost 12.9 percentage points of its votes. In sum the coalition partners together lost about 39 percentage points of electoral support from the April 1999 elections.

**Table 8. Three Phases of the Turkish Neo-liberal Experiment**

	External Actors and Their Involvement	Domestic Political Context	Quality of Economic Performance
Phase I “De-regulation Phase” 1980 – 1989	IMF, World Bank and the OECD are heavily involved in the early 1980s; their influence diminishes following the recovery process; EU is in the background.	Authoritarian interlude followed by transition to democracy; continuity of leadership under Özal; strong executive and firm commitment to reform at least towards the end of the decade.	Significant recovery and surge in exports during the early 1980s; quality of performance deteriorates towards the end of the decade due to growing fiscal instability and rising inflation.

(Table 8. continues)

<p>Phase II</p> <p>“Rhetorical Transition and Institutional Crisis” 1989-2001</p>	<p>IMF temporarily involved after the 1994 crisis; EU is weakly involved through the Customs Union; both the IMF and the EU became important in 1999, however their real impact is not immediate. New bureaucratic agencies were introduced but they have not emerged as strong and autonomous players in their regulatory territory.</p>	<p>Weak coalition government unable to impose fiscal discipline; lack of commitment to reform but go along with the Customs Union as a necessary step to EU membership</p>	<p>Economic performance is generally weak; growth heavily conditional on short-term capital flows; fragile, debt led growth, associated with three crises in less than a decade with devastating consequences for overall growth, employment and income distribution.</p>
<p>Phase III</p> <p>“Re-regulation Phase” post-2001 era</p>	<p>Both the IMF and the EU become powerful anchors in the post-2001 era, the World Bank is also important but secondary.</p>	<p>Government commitment to reform increases considerably, particularly following the victory of the AKP. Majority government for the first time for over decade conducive to economic stability</p>	<p>Significant improvement in economic performance, too early to say that sustainable growth has been fully consolidated; elements of fragility given the continued importance of short-term capital inflows and a large current account deficit.</p>

Source: Öniş and Bakır (2006)

### 5.1.2. Changes in Power Relations

Until the re-regulation phase, the external actors, such as IMF, involved in the economic policy development and public financial management relatively more during early 1980s and less after mid 1980s. Until Özal’s presidency, during the de-regulation phase, the power balance was mainly between military and politicians. During the rhetorical transition and institutional crisis period, in parallel with the increasing civilization in the society, power relations in public finance mainly dominated with the relations between the politicians and bureaucracy. One of the most critical developments in the power relations was the customs union which was a necessary step to European Union. Customs Union was taken as an economic policy decision by a significant part of the society but its long lasting influences have been observed after Helsinki Summit in December 1999 that the European Council gives Turkey the status of candidate country for EU membership. Especially in the last part of post-1980 period, during

the re-regulation phase, convergence to EU is effecting in almost all areas of economic and social life.

2000 and 2001 crisis radically changed the balance of power relations in Turkey's political economy in favor of the "pro-reform coalition". This shift in the balance of power was particularly evident in the IMF's relations with the on-going coalition government. Two of the dominant members of the coalition government, DSP and MHP were reluctant in the reform process, such as the massive cuts in agricultural subsidies. However, following the crisis, the resistance of the coalition government was effectively broken and the IMF gained power in relations. Due to this shift in the balance of power in the policy-making process, geo-political considerations came to the agenda and the IMF became willing to allocate substantial financial resources for Turkey. Argentina experienced a similar crisis in the same year, but it was not equally fortunate in eliciting similar magnitudes of IMF support (Öniş, 2006).

Another important development regarding the sharing of political power with international organizations in the post-crisis period was the appointment of Kemal Derviş. As mentioned above, he was formally a member of the coalition government but he was an above the politics figure. Derviş was appointed as a part of a top-down process of restructuring because he was benefiting from being a member of transnational policy community. Thus, the changing balance of power involved not only a shift in the powers of the IMF with respect to the incumbent government, but also a shift in the powers and autonomy of the team of technocrats assembled around the personality of Derviş working in close co-operation with the IMF and the World Bank (Oniş and Bakır, 2006).

The increase in the power of the IMF accelerated the reform process especially in financial sector (Bakır, 2006). Banking Regulatory and Supervisory Agency, BRSA, had been established in June 1999 following the Banking Act, prepared under the advisory of IMF. BRSA took responsibility for banking supervision and regulation from the Treasury and the Central Bank and became operational in September 2000. However, in the pre-crisis period, there was no natural constituency demand for a reform in banking sector and there was lack of political and bureaucratic will. As a result, the BRSA was unable to perform a proper regulatory role to prevent the twin crises which was essentially stemmed from the malfunctioning and

insufficient regulation of the banking system. Following the February crisis, with IMF support in the background, the BRSA was able to obtain the partial autonomy from politicians and interest groups (see Alper and Öniş, 2004). Considering the structural reforms adopted after the 2001 crisis, Bakır (2006) argues that Turkey is on the way to establish a regulatory state.

In addition to the transition to regulatory state with the enactment of reform laws which were regulating market sector and introducing structural reforms, one of the important contribution of IMF and World Bank supporting the involvement of non-governmental bodies involved in decision making processes as discussed in detail in Chapter 3. As a result of this initiation, number of stakeholders represented in economic and public financial policy management increased and the transparency of the mechanisms is investigated in order to assure the efficient involvement of these bodies.

On 17 December 17, 2004, the European Council decides to open membership talks with Turkey. EU is a supranational body and its operations depend upon agreement between the member states in some areas while in some others, directly able to make decisions without unanimity. However, considering that economic and monetary matters are coordinated and executed by the supranational body, power relation among the local actors change constantly and it may be argued that EU undertakes the role of IMF with covering more space in public financial management decision taking area.

## **5.2. The Comprehensiveness of Budget**

The share of budget expenditures in gross domestic product (GDP) is a widely used measure for the size of state budget (Garrett and Rhine, 2006) and the size of state budget and its comprehensiveness have direct relations with its influencing power on economic and social balances, as widely discussed in Chapter 3.

Centrally controlled budget with clear definitions of processes in each step may give governments an efficient tool for redistribution of public resources and create constant changes in the power relations between different sectors of the society. On the other hand, decentralized public financial management system or deficiencies in the effectiveness of the system directly reduces the redistributive power of budget. However, it is not

argued that in both cases state budget is not the only tool and also is not the main explanatory of redistributive power of governments.

Redistributive power of state budget may be measured by analyzing the total amount of appropriations and determining its coverage whether there are decentralized non-budgetary expenditure areas. Because governments may employ some other tools which allow them to make non-budgetary expenditures. It reduces the power of budget but not the power of governments, moreover in some cases governments may prefer to spend outside of the budget to avoid budget constraints.

Although it has some significant constraints, considering the size of state budget and its coverage in addition to the size of sectors other than the state, it is clear that budget is a strong device in every situation to use for redistributive purposes. The size of budget may reflect the preference of the governments and/or budget officials, depending on the policies and power balances. However, size itself does not indicate a strong or weak redistribute power, moreover does not necessarily give a signal on the size of the state. Dispersed public financial management system may result in inefficient budget even it is sizeable. Besides, the existence of off-budget items may cause a smaller budget which is an outcome of the power struggle between the politicians and bureaucracy (Niskanen, 1973, Schiavo-Campo, 2007). Because non-budgetary spending areas are also decided by governments in order to prevent priority expenditures from budget cuts and appropriation management rules, or hide transactions from public or legislative scrutiny.

Politicians prefer to channel funds for their allegiances from different geographic constituencies and social sectors, through the most practical way. Bureaucracy maximize budget beyond the point where the marginal public benefits of the goods and services equal to bureau's marginal cost of providing the goods and services (Niskanen, 1973). Due to the monopoly nature of bureaucracy, bureau uses the advantage of having information about the true cost of programs, and bureaucracy aims to increase the comprehensiveness of budget, in order to widening of impact area.

As stated in Section 3.1.2. General Accounting Law, according to the budget calendar for General Accounting Law, Prime Minister releases budget call in June and the budget preparation cycle ends in December with the enactment of budget law by the Parliament. Therefore, the reflections of

policy changes which may have influences on the power relations should be programmed from June till October, before the budget to be submitted to Parliament in order to secure the financing of these policy changes in the coming year's budget. Consequently, in order to understand ruling parties' intention to influence power balances, it becomes a requirement to analyze budgets according to the government which prepare and submit to the Parliament. Table 9 shows the political parties, prime ministers and ministers of finance in charge, during budget preparation period and the issuance of budget law in the period of 1980-2003.

**Table 9. Budgets and the Political Will**

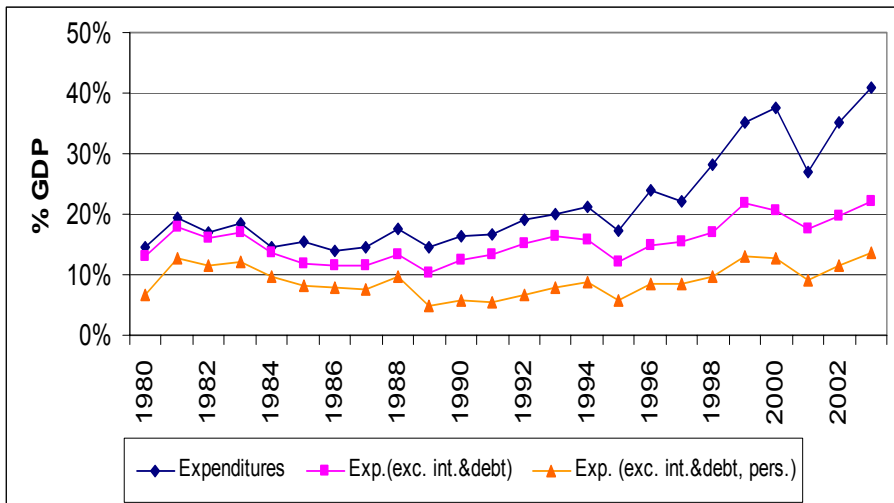
<b>Budget Year</b>	<b>Political Party in Charge</b>	<b>Prime Minister in Charge</b>	<b>Minister of Finance in Charge</b>
1980	AP	Süleyman Demirel	İsmet Sezgin
1981	MILITARY	Bülent Ulusu	Kaya Erdem
1982	MILITARY	Bülent Ulusu	Kaya Erdem
1983	MILITARY	Bülent Ulusu	Adnan Başer Kafaoğlu
1984	MILITARY	Bülent Ulusu	Adnan Başer Kafaoğlu
1985	ANAP	Turgut Özal	A.Kurtcebe Alptemoçin
1986	ANAP	Turgut Özal	A.Kurtcebe Alptemoçin
1987	ANAP	Turgut Özal	A.Kurtcebe Alptemoçin
1988	ANAP	Turgut Özal	A.Kurtcebe Alptemoçin
1989	ANAP	Turgut Özal	A.Kurtcebe Alptemoçin
1990	ANAP	Yıldırım Akbulut	Ekrem Pakdemirli
1991	ANAP	Yıldırım Akbulut	Adnan Kahveci
1992	DYP – SHP	Süleyman Demirel	Sümer Oral
1993	DYP – SHP	Süleyman Demirel	Sümer Oral
1994	DYP – SHP	Tansu Çiller	İsmet Atilla
1995	DYP – SHP	Tansu Çiller	İsmet Atilla
1996	DYP – CHP	Tansu Çiller	İsmet Atilla
1997	RP – DYP	Necmettin Erbakan	Abdullatif Şener
1998	ANAP – DSP	Mesut Yılmaz	Zekeriya Temizel
1999	ANAP – DSP	Mesut Yılmaz	Zekeriya Temizel
2000	DSP - MHP - ANAP	Bülent Ecevit	Sümer Oral
2001	DSP - MHP - ANAP	Bülent Ecevit	Sümer Oral
2002	DSP - MHP - ANAP	Bülent Ecevit	Sümer Oral
2003	AKP	Abdullah Gül	Kemal Unakıtan

Source: Own rescheduling by using [www.basbakanlik.gov.tr](http://www.basbakanlik.gov.tr) and [www.maliye.gov.tr](http://www.maliye.gov.tr)

In order to determine the redistributive power of state budget, first the size of the budget will be explored, and then non-budgetary expenditures

areas will be discussed while checking the coverage and centralized structure of budget.

The size of the budget (Figure 11) in Turkey shows that there are three main trends in widening of the size of state budget. In parallel with the Öniş and Bakır's (2006) classification during the de-regulation phase, which starts in 1980 and end in 1989, the size of the state budget was almost constant. Budget spending relative to GDP was more than 20 percent in average during the time of military government while it declined considerably during the period of single party ANAP governments. In order to avoid from rigid budget controls of MoF, EBFs were founded and those were the main sources of deterioration in fiscal discipline and the decline in budget expenditures. However, starting from 1989, which indicates the beginning of rhetorical transition and institutional crisis phase, the size of state budget first increased and then stayed constant within a band of 13-18 percent in Turkey until 1991, but continued to increase slightly until 2000.



**Figure 11. Size of the State Budget**

Starting from 1989, with the introduction of full convertibility as mentioned in the previous section, Turkish economy became a more outward oriented economy. Liberalization of financial markets with the introduction of convertibility of Turkish lira increased state's activity in economic life as Rodrik (1998) argues that the more open the economy the larger the

government. On the other hand, one of the reasons behind this slight increase in budget expenditures over GDP ratio may be the desire of bureaucracy to grow its budget, accordingly its power, during the terms of weak coalition governments. Besides, there may be an increase in the size of state budget relative to GDP because of the demands coming from citizens for new programs (citizen-over-state theory) or inefficiencies in public sector activities and desire to growth by bureaucracy, which is independent from citizen's demands (state-over-citizen theory). In both cases, growing size of budget reflects its impact in economic and social life through the redistribution policies.

In the last period, which starts in 2001, the share of government expenditures in GDP increased drastically, almost tripled in comparing to 1980s, and reached to 41 per cent in 2003. This ratio indicates that nearly half of the annual production of the society was redistributed through the state budget in 2003.

However, it is clear that governments do not have discretion on all of the spending items. Therefore, although the state budgets have some redistributive characteristics as a whole, use of budget in accordance with politicians' and bureaucracy's redistributive will is limited, because of the non-discretionary expenditures, such as personnel spending and interest payments. Therefore, in reality, redistributive power of budget officials and politicians who are taking decisions in current year's budget cycle, are limited with the size of discretionary expenditures. On the other hand, it is a fact that, almost all of the decisions taken during the budget cycle have some influences on the budgets' of coming years. For instance, for the current government, personnel spending are given parameters which are determined in line with the decisions of previous governments, such as number new incomer employees and the salary increases for the existing civil servants. However, the current government may also decide on the number of new civil servants to be employed and the salary increases. This kind of decisions block budgets of coming years and reduce the discretionary power of future governments.

In this regard, domestic borrowing increased rapidly, starting from 1994 and interest payments due from these credits reduced the redistributive power of future governments. As shown in Figure 11 the biggest contribution to growth of the state budget came from the interest

expenditures and principal repayments, which were budgeted as expenditures until 1984. Redistributive influences of interest payments on power balances are going to be discussed in Section 5.6.2. . At this stage, interest payments are excluded from the total, in order to determine redistributive power of current year's budget and it is observed that the spending of state relative to GDP moves in a band of 10 to 22 percent for the whole period of analysis (Figure 11). Figures indicate an increase more than 100 percent in the size of state budget during the period of 1980-2003.

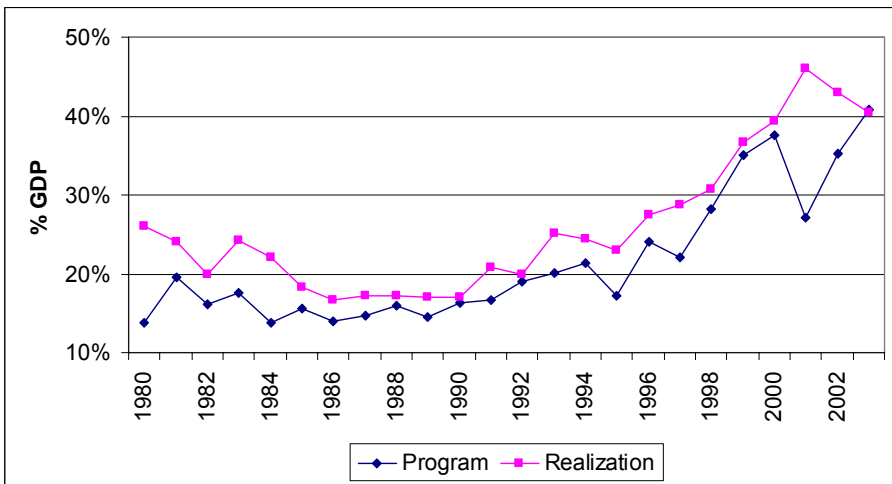
In addition to interest payments, as mentioned above, governments have limited discretionary power on personnel spending. Therefore excluding the total of interest payments and personnel spending point out the room for discretionary decisions in the current year's budget in general, to redistribute resources among different social sectors. Figure 11 shows that politicians and budget officials may take discretionary decisions only for a limited amount of 5.8 percent to 13.7 percent of GDP during the whole period.

The suppressing of real wages during early 1980s created a room for non-interest and non-personnel expenditures and allowed military government to execute discretionary policies. Nevertheless, severely repressed real wages exploded in 1989-1990 when unions became active again and due to a sharp wage increases in 1988-89 period 129 percent in private and 188 percent in public sector, respectively, and the room for discretionary policies declined to its historically low level of 5.0 percent in 1989, (Aytaç, 2008).

As indicated by World Bank (2001), combined with the lack of clear policy guidance and limited discretionary room to maneuver, budget preparation has been a non-strategic account exercise, to a large extend, and it serves for an administrative purpose of allocating budgets to agencies on historical basis with appropriate adjustment for inflation. In Turkey, with little space of discretionary decisions, budget preparation processes have evolved and the decisions on line agency budgets have been made on a top-down basis at the end of budget preparation calendar. Besides, due to the top-down budgeting procedure which was discussed in Chapter 3, Minister of Finance, in reality the budget officials, uses discretion as possible as they can and this causes a fiscal expansion during the fiscal year. This indicates that the parliamentary control on governments is weak and resources

allocated during the budget formulation period can be reallocated in the process of budget implementation. Discretion authority used by Minister of Finance and the budget officials narrow the scope of budget presented to the parliament.

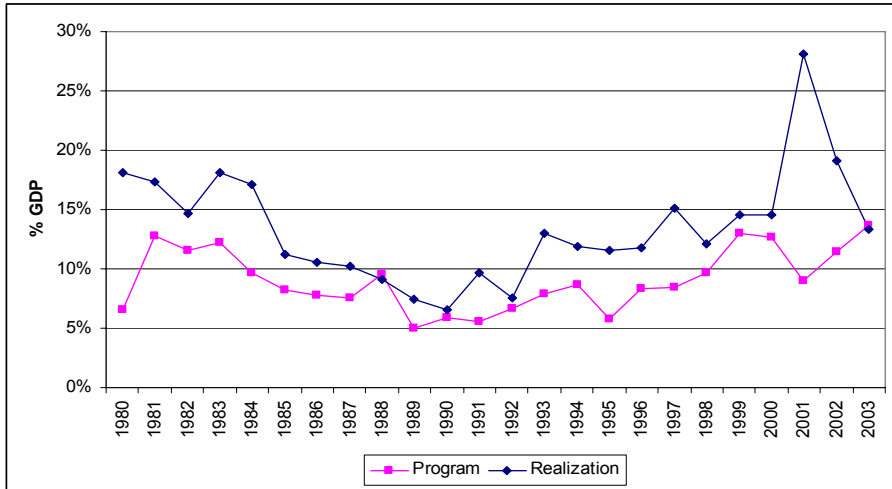
On the other side, there were significant differences between the targets set by the budget laws and realizations occurred in the final bill the budgets, in 1980-2003 period as also mentioned in Chapter 4. Although exceeding of the spending limits determined by appropriations is forbidden by law, there are three possible ways for deviations; additional appropriation, extra-ordinary appropriation and supplementary appropriation (Parlak, 2005). Figure 12 indicates that the distributive effect of state budget is more than the programmed.



**Figure 12. Budget Expenditures**

Adding up the additional appropriations, budget expenditures relative to GDP went up to 26 percent in 1980 while it was programmed as 14 percent in the budget law and this was one of the historically highest deviations. A similar difference occurred in 2001, end year appropriation amount over GDP reached to 46 percent, while the program was 27 percent. The average of deviations of the year-end allocations from the amount set by the budget is 5 percent of GDP during 1980-2003.

As an indicator for distributive power of budget, year-end appropriations, excluding interest payments and personnel spending, declined from 18.1 percent in 1980 to 6.6 percent in 1990. It first reached 9.8 percent in 1991 and went up to 28.1 percent in 2001 (Figure 13).



**Figure 13. Budget Expenditures (excluding interest and personnel)**

The second measurement method for determination of comprehensiveness of state budget is the coverage of budget. Non-budgetary public spending areas narrowed the coverage of the budget and severely suppressed its size. Especially during 1980s and until mid-1990s EBFs were employed to realize considerable size of public investments and expenditures under the governments' discretionary policies. Adding up the revolving funds and other non-budgetary state activities, it was clear that the size of state was higher than those figures mentioned above; even the budget had smaller redistributive power. However, starting from 2002, first the abolishment of EBFs, later the enactment of structural reform laws helped to increase the comprehensiveness and the size of the budget during the post 2001 period called as re-regulation phase by Öniş and Bakır (2006).

Increasing off-budget activities and shrinking budget coverage from 1980 till 2001, made citizens unable to watch and investigate the performance of state agencies such as parliament and cabinet by using the budget as a reference. On the other side, the parliament could not put adequate political control on government's fiscal policies by means of the budget. From the government's

point of view, it was not possible to get complete information on public services and their financial costs. After mid 1980s dispersion of public accounts and sophisticated budgeting processes deepened the principal – agent problem and bureaucracy took the advantage of its technical qualifications.

As indicated in SPO's 8<sup>th</sup> Five Year Development Plan Ad-hoc Committee Report on Restructuring of Public Fiscal Management and Fiscal Transparency (2000), the scope of budget was considerably narrow scope and it was recording only a part of funds distributed by the government. The report argues that pragmatic public fiscal policies pursued throughout 1980-2002 period have transformed the budgeting system to an insufficient document, since a substantial amount of public expenditure, which should be included in the budget, has started to emerge outside and efficiency control on public resources lost its effect on the budget.

SPO report (2000) states that total size of the expenditures almost reached to 30 percent of the budget at the end of 1990s (excluding local governments, foundations, associations and mutual assistance funds). It went up to 45 percent, excluding interest payments and raised around 40 percent of budget and 60 percent of expenditures excluding interest payment by adding up the transfers to local governments. According to report, funds, revolving funds, local government, independent budgeted public agencies, foundations and mutual assistance funds were categorized outside of the budget (Table 10). However, leaving local governments aside, funds and revolving funds were the main agents employed by the governments to by-pass limitations set by the budget spending mechanisms, as discussed in Chapter 3.

**Table 10. Non-Budgetary Public Spending Areas**

<ol style="list-style-type: none"> <li>1. Funds             <ol style="list-style-type: none"> <li>1.1 Partially Budgeted Funds</li> <li>1.2 Non-budgetary Funds</li> <li>1.3 Special Accounts</li> </ol> </li> <li>2. Revolving Funds</li> <li>3. Local Governments</li> <li>4. Public Agencies With Independent Budgets</li> <li>5. Foundations and Associations</li> <li>6. Mutual assistance funds</li> </ol>	<ol style="list-style-type: none"> <li>1. Government Property and Immovables</li> <li>2. Quasi-official Transactions             <ol style="list-style-type: none"> <li>2.1 Functional Losses Resulting from State-owned Enterprises</li> <li>2.2 Bonds Issued to the Central Bank for Foreign Currency Translation Differences</li> <li>2.3 Bonds Resulting from Consolidations</li> </ol> </li> <li>3. Contingent Liabilities             <ol style="list-style-type: none"> <li>3.1 Guaranteed Foreign Debts</li> <li>3.2 Transfer Credits</li> <li>3.3 Domestic Guarantees</li> <li>3.4 Deposits Insurance</li> <li>3.5 Build Operate / Build Operate Transfer Projects</li> <li>3.6 Investment Stock</li> <li>3.7 Other Contingent Liabilities</li> </ol> </li> <li>4. Tax Expenditures</li> <li>5. Taxes and Similar Levies Imposed by Different Laws (Revenues Not Attached to the Budget and Directly Transferred to the Agency)</li> <li>6. Foreign Project Credit Applications</li> </ol>
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Source: 8<sup>th</sup> Five Year Development Plan Ad-hoc Committee Report on Restructuring of Public Fiscal Management and Fiscal Transparency, SPO (2000) p. 29

The first fund went back to 1934 (SPO, 2000). They were in competition with the budget due to the monies they have accumulated for almost two decades starting from early 1980s. In this period, the most important threat for reallocation power of budget was the establishment of too many EBFs, which were transferring authority of parliament for spending and revenue raising to the governments for an undetermined period of time. Besides, most of these funds were exempted from the audit of the Turkish Court of Accounts and the procedures of Public Procurement Law. The Annual Program of SPO (2000) states that total expenditures of 11 funds and two accounts amount to approximately TL 2.9 billion which corresponded to almost 10 percent of budget in late 1990s. Excluding interest payments, this ratio rises to 17 percent. In 2001, EBFs have been eliminated, with the exception of Defense Industry Support Fund, Privatization Fund, Social Aid and Solidarity Incentive Fund, Promotion and

## Publicity Fund, Saving Deposit Insurance Fund, and Support and Price Stability Fund

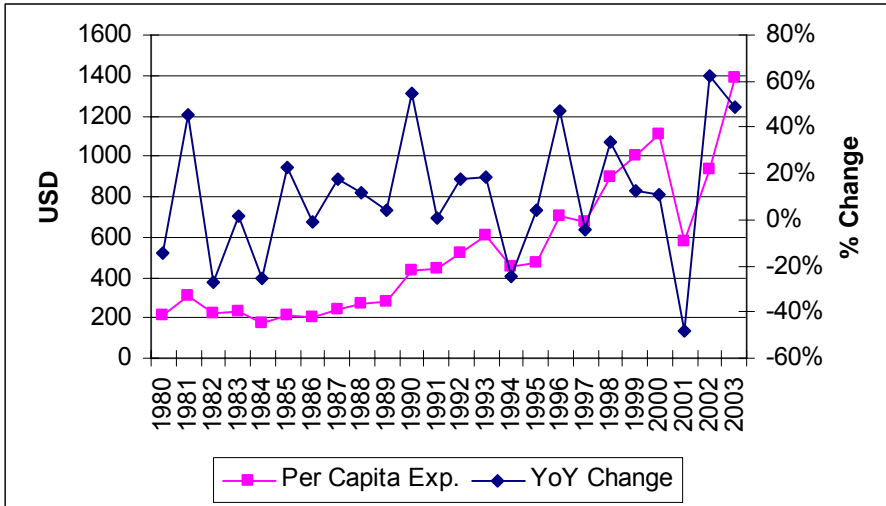
Similar to the EBFs, around 3000 revolving funds have been performing in the area that covers state's fundamental public services and functions. Revolving funds are mainly operating in education and health sectors, in addition to commercial, industrial, agricultural, cultural and professional areas. Total turnover these revolving funds reached to 3-4 percent of budget expenditures as of 1999. It reached to 5 – 6 percent excluding interest payments (SPO, 2000).

From the transactions point of view, quasi fiscal activities which are not properly accounted for in the conventional public sector accounts, such as duty losses of state owned enterprises, bonds issued to Central Bank and contingent liabilities such as state guarantees on external borrowing and deposit insurance are not counted in the state's balance sheet (Table 10). These are off-balance sheet items and accounted when asked for payment. Therefore, thanks to the availability of legal structure, governments may involve in such financial transactions which may not have any reflection in the budget.

As a result, if there is no need for proper reporting, parliaments and citizens may not have any idea about the size and probable cost of these transactions until they became a realized risk and required to be paid by the budget resources. Therefore, assuming that the risk will not be realized, non-budgetary expenditures treated as “zero cost” transactions at the date of issuance and preferred to be kept outside the budget by the governments, in order to avoid paying cost of transactions immediately by using the budget resources.

In addition to the size of state budget and its comprehensiveness, as supplementary indicator per capita budget expenditures gives an idea on the physical size of government and an increase in spending by government agencies (Garrett and Rhine, 2006). The budget expenditure per person was USD 212 in 1980 and went up more than USD 1390 in 2003. In parallel with the phases that mentioned in Section 5.1. per capita spending stood steady until 1990, then it raised to USD 400-650 level and in 1998 it increased to USD 893 and continued to increase except in the crisis year of 2001 (Figure 14). The average annual growth rate in per capita spending was 11 per cent,

which implies a higher increase than the change in GDP in USD terms, during the same period. However, as stated above, increase in per capita spending mainly came from the raising personnel expenditures and interest payments.



**Figure 14. Per Capita Budget Expenditures**

As a result, it is obvious that the size of budget drastically increased during the analysis period, and the redistributive power of state was augmented in terms of share which it covers in GDP. During the de-regulation period budget became weaker since the size and coverage of non-budgetary expenditures were widened with the establishment of EBFs and revolving funds. Besides, quasi-fiscal activities such as state guarantees and duty losses of state owned enterprises increased. During 1990s, political instability reflected its influences in public finance area and size of the state grew slightly, due to the increasing personnel expenditures which were suppressed during the military government and ANAP government, and financial transfers. After mid 1990s, interest payments also increased significantly. The reasons behind the increase of budget size will be discussed in detail in the following sections. Additionally, the coverage of budget widened in the re-regulation phase, because of the abolishment of EBFs and post crisis structural reforms. Consequently, due to the increasing comprehensiveness, state budget increased its redistributive power and

considering that the interest payments are declining in recent years, discretionary power of politicians and budget officials is also strengthened.

### **5.3. Distribution of Budget Resources among Elites**

Poggi (2001) states that status, wealth and rulership are three resources of social power. Those are not only in conflict among each other, but also in conflict within themselves. Status is inherently invidious, that groups will struggle with one another to position themselves toward the centre to increase the saliency of the values they identify and the virtues they developed. The main concern of bureaucracy is to struggle for status.

As the second resource of power, Poggi (2001) argues that wealth is the object of conflict since inherently its possession is scarce and all social groups struggle to increase their possession of it at each other's expense. However, political power, rulership, creates an asymmetry among power relations. There are many expressions and particularly visible instruments and symbols, such as the right for tax collection of a state agency that shows the power of rulership. Political power tends to manage resources autonomously or at least influence the ruler's decision in a way to impose their own interests. At this stage, as a part of decision mechanism in the budget preparation process, a conflict occurs between politicians and budget officials in order to control the power of managing resources.

Besides, the usage of this device may have some differences in terms of policy formulation and the implementation periods. Budget may be subject to a struggle among politics, military, bureaucracy and other interest groups within the civil society. It is possible to organize and implement a budget in a pluralistic view (Hunter, 1953, Dahl, 1958, Pollack 1999) or in order to serve hegemonic projects (Mills, 1956, Miliband 1987, Gramsci 2007, Althusser, 2000) or to support autonomy of state (Poulantzas 1978, Nordlinger, 1970, Skocpol, 1985, Block, 1994, Jessop, 2002) or under the influences of transnational relations or globalization (Giddens, 1990, Sklair, 2001). However, the main power struggle in the budget preparation and implementation process occurs between politics and the bureaucracy as discussed in Chapter 2.

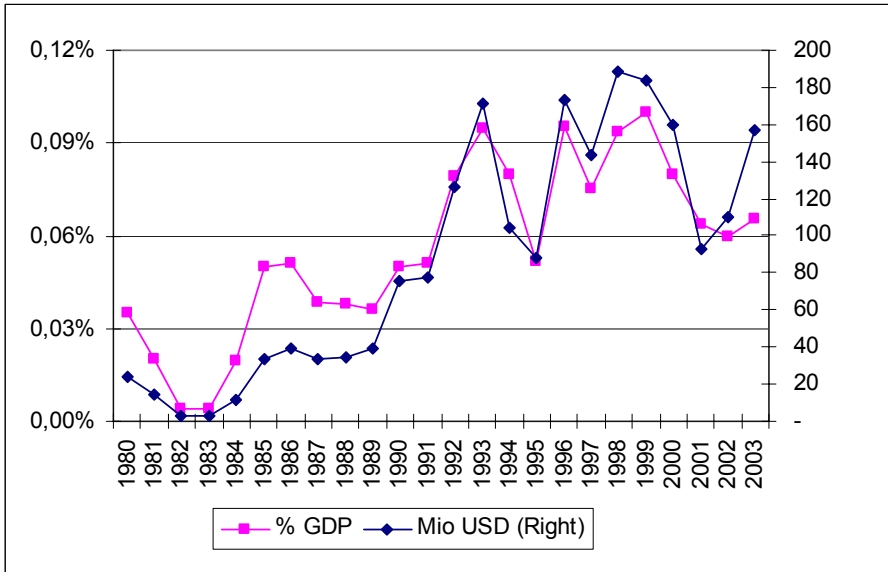
On the other hand, as stated in the previous chapters, because of its presentation and classification, budget document does not allow to produce a breakdown of appropriations in parallel to the social groups, determined in

the theory of sociology. Therefore, this study makes some approximations, such as categorizing all expenditures on personnel, travel allowances, movables and general execution under the category of administration and tries to find the allocations from state budget to elites mentioned by social scientists such as Poulantzas, Gramsci and Althusser, as possible as budget classification allows. In this regard, as the representatives of state apparatus, allocations to politics, military, administration and juridical are calculated. Besides, in order to analyze the amount of public resources allocated to ideological state apparatuses, appropriations to religion and education are explored by analyzing different expenditure items.

### **5.3.1. Politics**

Budget transfers to politics are limited with appropriations for legislature and transfers to political parties. Therefore analyzing the budget figures alone does not provide enough information regarding the position of politics against other sectors, especially against bureaucracy, in the power struggle.

The average of funds allocated to the parliament and political parties relative to GDP was 0.6 percent. Excluding 1981-1983 period, when the parliament was closed and advisory assembly was founded, this ratio increased to 0.7 percent. Switching from military to civil government caused an increase in the appropriations and the ratio increased from 0 percent to 0.2 percent in 1984 budget which was last budget prepared by military government. Since 1980, the first budget prepared and executed by politicians and bureaucracy was 1985 budget and resources allocated to politics raised to 0.5 percent of GDP, which was slightly higher than the appropriation allocated in 1980 budget (Figure 15). Besides, it should be noted that from 1961 to September 12, 1980 military coup d'état, Grand National Assembly of Turkey consisted of National Assembly and Republic's Senate.



**Figure 15. Budget Allocations to Politics**

DYP-SHP coalition raised transfers to politics to an average of 0.8 percent of GDP and it stood constant till the end of analyzed period. From politics perspective, this figure itself is not explanatory enough for the power relations among different social groups since the influences of politics exceeds the amount allocated to legislature and political parties. The way of budgeting, decision making and implementation processes during the budget cycle give evidence regarding the dominance of politics in the power struggle. In case of dominance of politicians, budget may be subject to dramatic structural differentiations especially in terms of the definition of public goods, determination of public services, and the channels of providing public services.

During the coalition governments, the balance decided in coalition protocol is necessary to seek and to assure continuation of daily routine. Dialogue, negotiation and agreement between the coalition partners are an essential part of governing. When there are coalition governments, the legislature and bureaucracy have relatively more budget power. On one side, the parties not represented in the government but have seats in the parliament may bargain with the coalition government to adopt policies or programs that change the allocation and amounts of budget spending. On the other side, as discussed in the previous section, ruling parties represented in

the coalition government may not be harmonious enough to manage conflicts arising from the redistribution of resources. Therefore incremental characteristics in terms of allocating the budget resources come in the first place and dominance of bureaucracy increases. Consequently, as Kuştepelı and Önel (2006) stated that ideological structure of government does not have any influence on budget deficits, however during 1976-2004 period, budget deficits and budget expenditures over GDP showed an increase under the coalition governments, in line with the long term objectives of bureaucracy (Hillman, 2003).

On the other hand, single party governments may have significant influences on the budget not only in allocating resources directly to social sectors, but also dominate the way of public services' provision by changing the hierarchical structure of government organization. Consequently, during the term of first ANAP government, the most striking evidences were observed regarding the reorganization of central government. 1982 Constitutional Law was giving authority to governments to issue statutory decrees. Özal government intensively used this power and radically restructured government organization by closing or merging ministries and general directorates. One of the main streams of this period was the transformation of prime minister's office from a coordination unit to a strong ministry by establishing agencies engaged in Prime Minister and transferring authorities from ministries to the boards and coordination committees, such as Coordination Board, in charge of regulation of foreign trade regime; Money and Credit Board, in charge of monetary and credit policy coordination; Higher Coordination Board of Economic Issues; Mass Housing and Public Participation Board.

Second stream was the diversification of roles and responsibilities in economy and fiscal management. As the first step of this phase, involvement of government in decision making processes was increased after the establishment of Money and Credit Board. It was established within the SPO by a decree dated 25 January 1980. The responsibilities of Money and Credit Board were determined as coordinating monetary and credit policy implementations, supporting the efforts to overcome financing difficulties and provide the breakdown of credits in line with the plans and programs prepared by SPO, give advice on the agricultural supporting prices, monitor balance of payment developments and take necessary measures. The chairman of Money and Credit Board was Undersecretary of Prime Ministry

and the members were Undersecretary of SPO, Undersecretary of MoF, Undersecretary of Ministry of Trade, Head of Economic Planning of SPO, Secretary of Treasury and International Economic Coordination of MoF, Governor of Central Bank and Director General of Revenues of MoF. It should be reminded that Turgut Özal was the Undersecretary of Prime Ministry and at the same time he was also acting as the Undersecretary of SPO. After appointed as the Prime Minister, Özal issued a decree on 30 December 1983 and changed the membership structure of Money and Credit Board. Under the chair of Deputy Prime Minister (State Minister) Minister of Finance and Customs, Undersecretary of SPO, Undersecretary of Treasury and Foreign Trade, Governor of Central Bank, Undersecretary of MoF, Undersecretary of Ministry of Agriculture and Forestry, Undersecretary of Ministry of Industry and Trade were determined as the members. Later, name of the Board was changed to Money – Credit Coordination Board and its functions redefined in 5 January 1992. Other revisions were also done in 16 September 1993 and 24 June 1994.

As the second step of this phase, on 13 December 1983, the day after taking the office by Özal, a statutory decree was issued in order to establish UTFT by transferring General Secretariat of Treasury and Organization for International Economic Cooperation from MoF and general directorates in charge of foreign trade from Ministry of Trade. Ayman Güler (1996) and Güzelsarı (2007) assert that UTFT was a privileged institution which was acting as an agent for liberalization and government's outward economic policies. According to Ayman Güler (1996) and Güzelsarı (2007) establishment of UTFT was an initiative for reorganization of state in line with the interest of capital, due to its responsibilities for coordination with international organizations such as IMF, World Bank, OECD, GATT, WTO etc. and duties on determination of foreign exchange regime, regulation of banking sector and supporting foreign trade which resulted in strengthened relations with global economy and trade. Moreover, foundation of UTFT permanently changed the budget preparation, implementation and monitoring processes. Establishment of UTFT as an affiliate of Prime Ministry not only separated financing and cash management from revenue collection and appropriation management but also divided responsibility of budget management divided among three institutions. As a result, current expenditures programmed by MoF, investment expenditures programmed by SPO and transfers programmed by UTFT. In 1994, UTFT divided into two

institutions; Undersecretariat of Treasury and Undersecretariat of Foreign Trade.

Starting from 1986 budget, funds raised by domestic and external borrowing started to be recorded as financing items, while borrowing was treated as revenue and principal repayments were treated as spending until 1986. Consequently, budget revenues and expenditures declined in parallel with the borrowing and principal repayment amount. Due to this change in the budgeting technique, the size budget deficit in total spending became transparently observable. On the other hand, article 4 of budget law sets a limit for net borrowing amount, starting from 1985. Consequently, debt management operations were carried relatively more independently, without concerning the appropriation limitations and governments could generate funds for deficit financing within the limits set by the parliament.

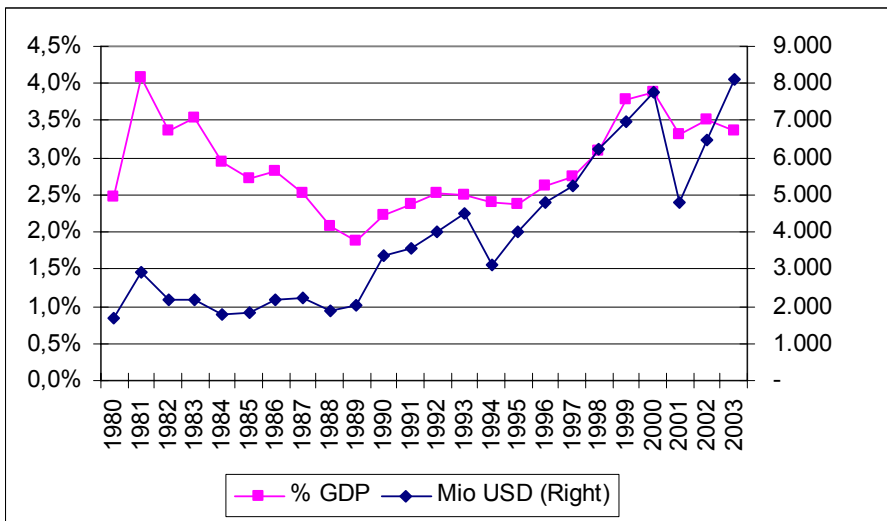
On the other side, considering that public services are provided by ministries and general directorates, changing structure of governmental organization gives an indication on the governments' priorities assigned to public services. It is a fact that every agency has relatively closer relations with some of the economic and social groups. In this respect, Ministry of Education mainly serves the students; Ministry of Forestry mainly serves the agrarian sector, Ministry of Tourism serves the tourism sector vice versa. As a result of this formulation; based on the closure and merger of ministries and general directorates, ministerial reorganization of first ANAP government indicates an intention for smaller state sector and liberal government structure. Consequently Ministry of Reconstruction and Settlement, Ministry of Villages and Cooperatives, Undersecretariat of Maritime were abolished or merged with the others. Besides, Ministry of Customs and Monopoly was abolished and its departments moved to Ministry of Finance.

Additionally, the power of issuance of statutory decrees enabled governments to establish a number of EBFs. As of 1990, the number of EBFs were 104 and 17 of them were under the control of juridical entities outside the central government. The expenditures of EBFs reached to 15-20 percent of the state budget (Oyan, 1998). As a result, starting from early 1980s, political influences on redistribution of resources increased for almost two decades due to the narrowing budget coverage and weakening of the power of budget officials,.

### 5.3.2. Military

Military power is separated from the political power by a significant number of social scientists such as Giddens (1981) and Poggi (2001) since it has a distinctive body of personnel, control over a complex of material resources, and it engages in a number of social practices that is considered as the tasks valid for exclusively itself. However, this separation does not negatively affect the consensus on the traditional perception of the military elites are the part of political elites.

Therefore, budget planning and execution for military expenditures shows that military elites have unusual powers on their budgets, like having a political character. Defense expenditures of state are fully controlled by military power and it gives an indication on the economic power of military elites. The power not only determined by the absolute size of defense allocations in the government budget, but also the way in which the allocation made and the sub-allocation between the various components of armed forces. Therefore, military elites have a distinctive position with regard to other government officials who do not have a significant influence on their budget allocations.



**Figure 16. Budget Allocations to Military**

Figure 16 shows that the average of funds allocated to military was 2.9 percent relative to GDP for the period of analysis. Despite the upward

and downward movements in the economy and in the budget balance, military expenditure has maintained its share in central budget expenditures (Şenesen, 1995, 2002). As it can be expected, the highest amounts of appropriations, which was 3.5 percent relative to GDP in average, given to the military sector during the military government. Starting from 1988 budget, till the end of analysis period, appropriations for “extreme military situation” in south-eastern Anatolia were allocated in the Ministry of Interior’s budget. However, surprisingly the average of funds allocated to military was 3.1 percent of GDP for the period of 1980-1987 while it was 2.8 percent in average during 1988-2003. Excluding the 1998-2002 period, when ANAP-DSP coalition and DSP-MHP-ANAP coalition were in charge, the average of “extreme military situation” period was around 2.5 percent relative to GDP.

The military government not only increased the allocated funds to military sector, but also initiated the establishment of non-governmental organizations. Mehmetçik Foundation was established on May 17, 1982 by the Chief of The Turkish General Staff, Forces Commanders and Commander of the Gendarmerie Forces in order to support martyrs, war veterans and soldiers.

The military, as an interest group, plays an important role on political actors (Cizre-Sakallıoğlu, 1997, 2000; Heper and Landau, 1991; Insel and Bayramoğlu, 2004; Lombardi, 1997; Parla, 1998) Therefore the budget allocations do not represent the total amount of public spending on the military as stated by Şenesen (1995, 2002) because of the off-budget spending facilities like EBFs and military foundations. During the first ANAP government, in line with the decentralization of budget power of MoF and the trend of establishing EBFs, in 1985, extra-budgetary Defence Industries Support Fund and its managing agency, Undersecretariat of Defence Industries, were founded in order to meet the weapon needs of Turkish Military Forces. Special levies placed on earned income, alcohol, fuel, cigarette consumption, bank interest earning collection were allocated to Fund

Turkish Air Forces Foundation, established in 1970, Turkish Land Forces Foundation, established in 1974, Turkish Naval Forces Foundation established in 1981 were merged under Turkish Armed Forces Foundation (TAFF) and on 26th September, 1987, Turkish Armed Forces Foundation

was established with Law no 3388, with the aim of strengthening Armed Forces and minimizing their dependency on foreign sources by establishing a defense industry capable of producing much needed weapons, vehicles and equipment. Turkish Naval Forces Foundation is the only foundation which established by law in the recent periods. There is not any publicly available document regarding the financial position of Turkish Naval Forces Foundation, however considering the size of balance sheets of subsidiaries and affiliates, Foundation manages a significant amount of financial resources. ASELSAN, TAI, HAVELSAN, ROKETSAN, İŞBİR and ASPILSAN are the subsidiaries of Turkish Naval Forces Foundation ([www.tskgv.org.tr](http://www.tskgv.org.tr)). Among them as a high technology system solutions for land, airborne, naval and aerospace platforms developing company, only ASELSAN's, asset size was more than 1.7 billion TL and its capital was 484 million TL in 2008 ([www.aselsan.com.tr](http://www.aselsan.com.tr)). Asset size of HAVELSAN, a software and integration company was 340 million TL and its paid in capital was 122 million as of 2008. Information on the financial data is not available for the rest of the subsidiaries. Additionally, TAFF has eight affiliates<sup>12</sup> and four indirect subsidiaries<sup>13</sup> ([www.tskgv.org.tr](http://www.tskgv.org.tr)). TAFF enjoys certain legal privileges such as exemption from foundations tax, income and inheritance tax (on donations) and stamp duty (Demir, 2005)

Besides, there are some other military foundations which were established after 1980 in order to fulfill aims like to support health military services and provide educational support for the members of armed forces. Among them, Gülhane Health Foundation (currently operating as Turkish Armed Forces Health Foundation) was established on 21 July 1992, Turkish Armed Forces Hand by Hand Foundation was established in 21 April 1996. Turkish Armed Forces Solidarity Foundation was established in 28 December 1998. The only foundation established before 1980 is Turkish Armed Forces Education Foundation which was established in 16 March 1957.

On the other side, even it seems that there is no direct relation for the redistribution process carried over through the budget mechanism, a unique channel; OYAK was established on 1 March 1961. OYAK's economic

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<sup>12</sup> TEİ A.Ş., Ditaş A.Ş., Netaş A.Ş., Mercedes-Benz Türk A.Ş., Heaş A.Ş., Tapasan A.Ş., Türktıpsan A.Ş., HTR A.Ş.

<sup>13</sup> MİKES A.Ş., Ehsim A.Ş., Esdaş A.Ş., STM A.Ş.

activities are widely dispersed among different sectors and it provides a very strong power to the military sector. OYAK let the military directly involve in the market activities and affect power relations among different social groups through the solidarity and retirement fund for the members of military forces. OYAK performed very strongly and recent figures show that as of 2007, its total assets reached to 11 billion TL. Besides, there are 25 subsidiaries<sup>14</sup> operating in different sectors such as industry, finance and services. Among these subsidiaries, only Erdemir Group<sup>15</sup> has 9 subsidiaries and it is the biggest industrial corporation of Turkey in terms of total assets. This exceptional business performance contains an access for privileged business environment such as exemption from ‘all taxes’. According to Article 35 of the OYAK Law, this includes exemptions from foundations tax, income and inheritance tax (on donations made to the Foundation and the assistance provided to its members or to their legal heirs), stamp duty (in connection with its transactions), income tax (on contributions collected from the permanent and temporary members), and expenditure tax (on any kind of revenues of the Foundation). Besides, its members (army regulars, defence ministry employees, etc.) pay compulsory fees from their monthly salaries, with a 10 per cent compulsory levy being taken directly from the net salary of around 180,000 serving officers. To add to the controversial civilian status of OYAK, the security of the conglomerate is ensured by a special law. Article 37 of the OYAK Law states that: ‘The entire property as

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<sup>14</sup> Erdemir Group, Adana Çimento Sanayi T.A.Ş. Bolu Çimento A.Ş. Ünye Çimento San.veTic A.Ş. Mardin Çimento San.veTic.A.Ş. Oyak Kağıt Ambalaj San.ve Tic. A.Ş. Oyak Beton San.ve Tic. A.Ş. Oyak Renault Otomobil Fabrikaları A.Ş. İskenderun Enerji Üretim ve Tic. A.Ş. Hektaş Ticaret T.A.Ş. Tukaş Gıda San.ve Tic.A.Ş. Tam Gıda San.ve Tic. A.Ş. Oyak Anker Bank GMBH, Axa Oyak Holding A.Ş. Oyak Yatırım Menkul Değerler A.Ş. Oyak Emeklilik A.Ş. Halk Finansal Kiralama A.Ş. Mais Motorlu Araçlar İmal ve Satış A.Ş. Omsan Lojistik A.Ş. Oyaş İç ve Dış Tic. A.Ş. Oyak Savunma ve Güvenlik Sistemleri A.Ş. Oyak Teknoloji Bilişim ve Kart Hizmetleri A.Ş. Oyak İnşaat A.Ş. Oyak Pazarlama Hizmet ve Turizm A.Ş. Eti Pazarlama ve San.A.Ş.

<sup>15</sup> The parent company of ERDEMİR GROUP is Ereğli Demir ve Çelik Fabrikaları T.A.Ş., which is the largest flat steel manufacturer of Turkey. Subsidiaries of ERDEMİR GROUP are: İsdemir, long steel manufacturer whose production is now extended with flat steel by new hot mill investments, Erdemir Mining Turkey’s only seamless steel pipe plant Çelbor the siliceous steel plant Erdemir Romanya flat steel manufacturer in Romania, Erenco, offers investment and engineering service for iron and steel investors, Erdemir Lojistik logistics services provider, Erdemir Çelik Servis, steel service center for cold product cutting and slitting, Erdemir Gaz, group’s gas provider.

well as the revenues of and credits due to the Foundation shall enjoy the same rights and privileges as State property. Offences against them shall be subject to the same legal action as offences against State property'. In order to provide a shield from market risks, OYAK is also privileged with a unique provision by the state, which enables it to transfer any of its loss-making or bankrupt companies to the state (Demir, 2005) Average profitability (balance-sheet profits in constant 1995 dollars) of the group before and after the reform programs shows that its average profitability between 1961-1980 jumped from around US\$ 15.74 million, to around US\$ 99 million in the period 1981-2001 (Demir, 2005).

In addition to the resources mentioned above, there are also other sources from which the fund generates income for its expenditures. For instance, if the necessary requirements are met, one can be exempted from compulsory military service by making a lump-sum payment to the state and some portion these payments is deposited in the Defence Industry Support Fund. Only limited a number of institutions are allowed to collect the donated animal furs during the Muslim's Feast of the Sacrifice, and TAFF is one of those authorized institutions (Şenesen 2002).

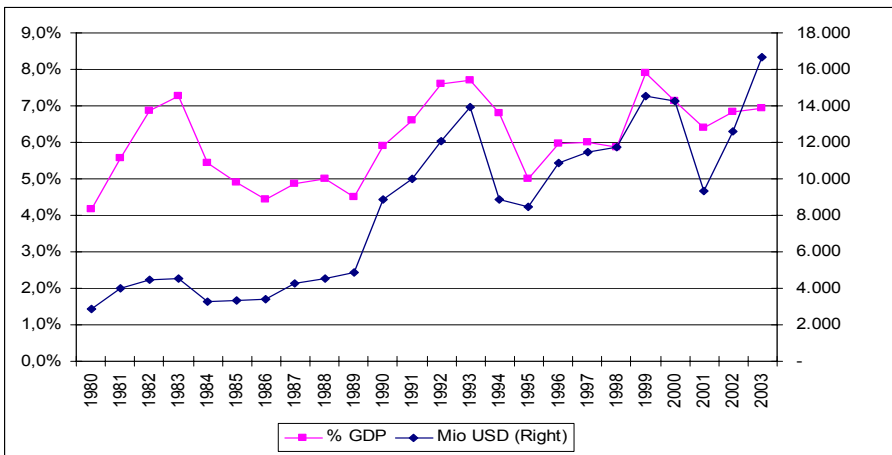
As a result, despite the increasing power and importance of international capital in domestic policy formulation via opening the domestic markets, the military sector succeeds in securing its position in the political and economic arena (Demir, 2005).

### **5.3.3. Administration**

Policies are chosen and implemented together by politicians and bureaucrats. Decision taking, policy formulation and execution always require technicians to make possible to rule for politicians. As all of the regulatory policies, budgets are the results of political and bureaucratic cooperation. Therefore, politicians and bureaucrats together represent the identity of state. However, budget classification does not allow to determine the amount of appropriations allocated to bureaucracy. Instead, as mentioned previously, budget spending on personnel, travel allowances, movables and materials, maintenance and general execution are categorized under administration in order to determine to what extent budget resources are allocated for the operational costs of running state apparatus. Definitely, bureaucracy in Weber's term is a part of administration but it is not possible

to measure how much resources are distributed to bureaucrats within the limitations of current budget data. Nevertheless, it should be noted that the term of bureaucracy is used in general terms as meaning the administration within this Chapter.

As mentioned in Section 5.2. The Comprehensiveness of *Budget*, the size of the budget indicates the size of the material power ruled by the state. Accordingly, it indicates the amount of wealth that is subject to redistribution. However, as discussed before, motivations of administration, more specifically bureaucracy, and politicians are different and in the end, preparation and execution of budget is one the struggle areas between these two social groups. Bureaucrats' aim is to widen their influences by increasing the budget of the agency which they served. Growth of state sector requires an increase both in the personnel and operational expenditures.



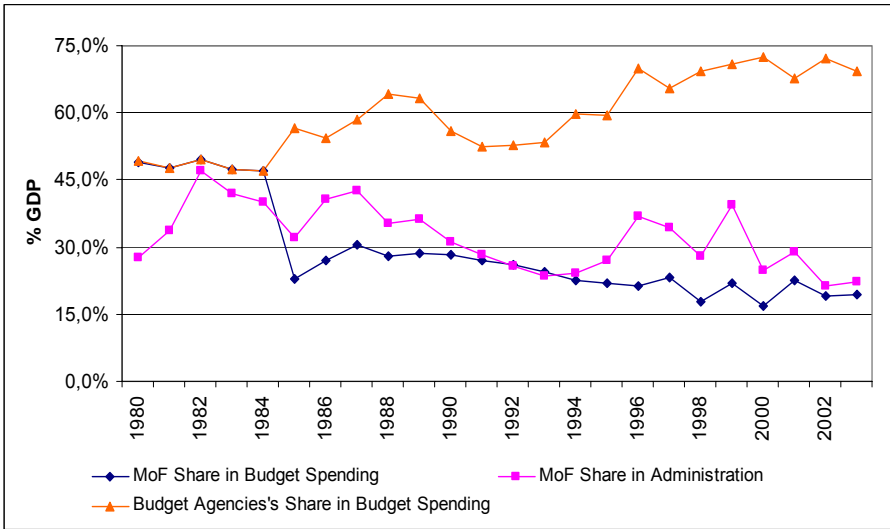
**Figure 17. Budget Allocations to Administration**

Figure 17 indicates that funds allocated to bureaucracy, such as personnel expenditures and operational spending in order to run business, during the 1980-2003 period is 6.1 percent on average. These amounts are the sum of executive spending and juridical spending items of the budgets, but religious expenditures are categorized separately and will be discussed in Section 5.3.5. Religion.

During the period of ANAP government, appropriations for personnel expenditures and operational cost began to decline and it reached to its

historically lowest level of 4.4 percent, in 1986. It then rose up to 7.6 percent in 1992 and 7.7 in 1993, due to the high level of increases in the salaries of civil servants. According to the Confederation of Public Servants Trade Union, wage increases were 57.2 percent in 1992 and 45.9 percent in 1993 ([www.memursen.org.tr](http://www.memursen.org.tr)) in the period of DYP-SHP government. However, a real depreciation observed in 1994, both in terms of US Dollar and relative to GDP, because of the economic crisis. The share of allocations bureaucracy relative to GDP was almost constant around 5.9 percent until 1999, and as a result of the relatively high increases in salaries during the term of ANAP-DSP government, the cost of running state apparatus reached to 7.9 percent in 1999. Economic crisis and decreasing inflation rate created a decline in personnel spending and also forced to save from operational expenditures item of the budget (Figure 17).

On the other hand, from the budget preparation and execution perspective, the power struggle mainly occurs between politicians and public finance bureaucracy, more specifically MoF; and between budget officials and the officials of spending agents. MoF is the main authority of budget cycle. However, evaluation of state budgets proves that the controlling power of MoF diminished in terms of appropriation amount allocated to the Ministry relative to total budget expenditures and also as the share of personnel and other operational expenditures to carry out state functions. The most significant decline was observed in 1985 budget, since Treasury was separated from MoF and affiliated with the Prime Ministry. After 1985, the share of MoF budget in total spending was never exceeded 30 percent, adversely it declined continuously. On the other side, declining share of MoF did not refer a decentralized structure in the budget. Considering the dispersed structure of budgeting in Turkey, the sum of appropriations of MoF and UT continuously increased and rose from 49 percent in 1980 to 72 percent in 2002 and 70 percent in 2003, where the share of SPO was less than 1 percent for the whole period.



**Figure 18. Budget Allocations to MoF**

Figure 18 demonstrates that central budget agencies control more than 2/3 of budget appropriations. Consequently, less than 1/3 of budget resources can be controlled by the rest of the state entities and considering the appropriations such as personnel and current expenditures, very limited resources can be used for redistributive purposes by the line agencies. Besides, similar to health expenditures, discussed in the previous section, appropriations of most expenditure items allocated with an incrementalist approach. As stated by O’connor (1973) as a result of employing PPBS, budgetary decisions were taken over by specialists and budget officials decided for the programs and policies incrementally. Therefore, supporting the thesis raised by O’connor, PPBS created a strong basis for bureaucracy to improve the power of executive office.

O’connor (1973) also argues that PPBS is a device which is serving for centralizing the budget resources, as discussed in Chapter 3. Therefore, employed budgeting technique acts as a tool to increase the control of central budget agencies on line ministries and they use enormous authority in incremental budgeting by delegating most of the redistributive tasks. Centralization of budget results in an increase in the power of budget officials. Thus, Turkey introduced PPBS in 1973 in order to strengthen the relations between the plan, prepared by SPO, and the budget. The role of

SPO became critical while MoF's uniqueness in budget cycle was deteriorating. However, central agencies as a whole increased their power on the redistributive processes and the outcome of PPBS was a centralized budget system (Coşkun, 1997, Atiyas and Sayın, 1999, World Bank, 2001, Gönenç.et.al, 2005).

Another result of change in the structure of budget cycle and the strengthening of relations between plan and budget was the increase of the authority of bureaucracy over politicians. First of all, PPBS increased the sophisticated structure of budget document and made it more complex for politicians. Secondly, Constitutional Law not only clearly puts emphasize on the importance of planning in article 166, but also broadly defines what plans should be included and how they will be prepared. Finally, article number 161 and 162 set limitations on legislative body, actually on politicians, regarding the budget preparation and negotiation procedures, which secures planning and budgeting officials' will on redistributive policies and enhances their position in struggling with politicians in the budget cycle.

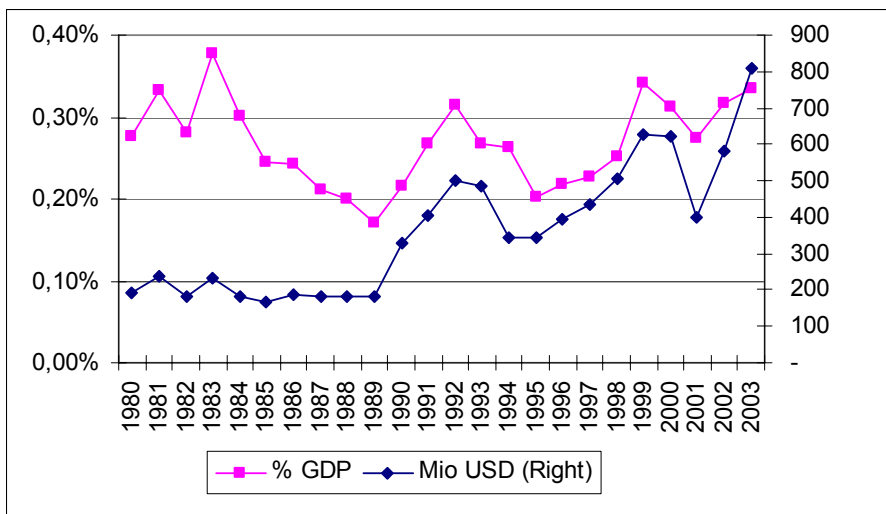
#### **5.3.4. Juridical**

Courts are one of the institutions stated as the primary part of state apparatus in sociological theory. As a part of this analysis, juridical includes the budget allocations of Ministry of Justice, in addition to high courts mentioned in Constitution. Besides, Legal Medicine Institution and Higher Election Board are categorized as a part of juridical.

Considering that the main part of allocations to juridical comes from the personnel expenditures, and all of the judges are civil servants, the developments in appropriations show significant similarities with allocations to administration<sup>16</sup>.

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<sup>16</sup> See Section 5.3.3. Administration.



**Figure 19. Budget Allocations to Juridical**

The average of resources allocated to juridical is 0.27 % of GDP during the period of analysis. However, even in general the amount of resources allocated to juridical did not show any significant change, it can be expressed that there were three trends at this time period (Figure 19). First period starts in 1983, which was also the highest ever level of appropriations, 0.38% and ends in 1989, as 0.17 % relative to GDP. During this period, the average of budget allocations to courts declined to 0.23 % which is below the whole term average.

Second period starts in 1990 and ends in 1995. During this period due to the wage increase mentioned in previous section, allocations to juridical increased from 0.17 % in 1989 to 0.31 % in 1992. Then, there was a decline both in terms of USD and relative to GDP until 1995.

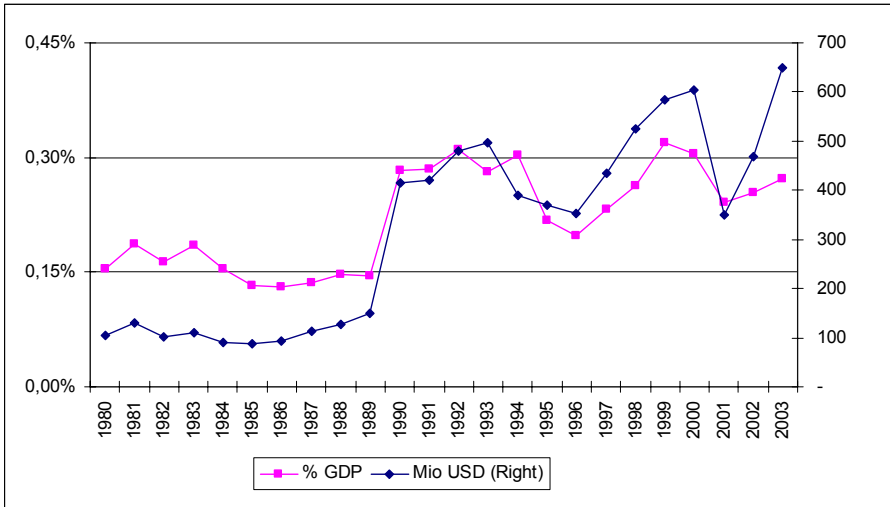
The last phase starts in 1995 and maintains till 2003. There was a continuous increase in the amount of budget resources allocated to courts starting from 1995. The average of allocations was 0.28 % of GDP in this period, after a decrease in 2002, just after the crisis, the highest increase in USD terms was observed in the first office year of AKP in 2003.

### 5.3.5. Religion

As one of the most important institutions of ideological state apparatus (Poulantzas 1978, Gramsci 2007, Althusser 2000) and a distinctive form of

social power, religion socially prescribes beliefs and practices relating to a realm of reality conceived as sacred (Poggi 2001) Religion is perceived as an ideological power in two senses: first it serves as a vehicle to understand the nature, and the origin and the purpose of reality at large; second, it is an authoritative set of normative, sanctioned prescriptions dictating how human beings ought to conduct themselves with respect both to one another and to higher beings (Mann, 1986; Durkheim, 1947; Tocqueville, 2007; Weber,1978). Religious and political spheres are separate in principle as both have its autonomous entities and means of power to exercise. However each exists one exists with the existence of the other and they operate together with their own institutional missions almost in all cases. In the end, there has always been a sophisticated relationship between state and religion. As Weber (1978) indicated, the most significant benefit of religion could normally offer the state in its negotiation has been its ability to legitimate the political system and thus “to domesticate” its subjects, making them more amenable to political control and discipline to oppression. Religion can chiefly make it useful to political power when the latter on the one hand seeks to institutionalize itself, even it is highly institutionalized, but on the other hand it cannot evoke enough willing, morally motivated compliance. The domestication of moral obligation to obey laws, pay taxes, use public goods in best manner can be possible thanks to the religion. On the other side, religion has concerns on the daily social life such as sins and crimes. The state legitimated by religion is expected to impart the unique authority of its own arrangements to religious vision, embodying it in public frameworks compatible with religious vision. (Poggi, 2001).

Budget expenditures allocated for religion are the sum of appropriations for Department of Religious Affairs and religious education affairs in the Ministry of Education including high schools for preacher. Transfers to individuals such as subsidy to civil servant lunches and international organizations are taken out.



**Figure 20. Budget Allocations to Religion**

Similar to military spending, religion sector holds a relatively constant level of budget allocations, which is 0.22 percent relative to GDP on average. On the other hand, in detail, three phases may be observed. In the first phase, 1980-1984 period, the appropriations relative to GDP was around 0.17 percent. In the second phase, ANAP governments first reduced the appropriation amount to 0.13 percent of GDP and it stood almost constant on average during the Özal governments. The third phase starts with the 1990 budget, Akbulut cabinet doubled the funds allocated to religion sector and raised it to 0.28 percent of GDP. The main reason of this increase was raising allocations to religious education. The third phase indicates an average of 0.28 percent until the end of the analysis period, including the declines occurred in the crisis years. In 1992 budget, DYP-SHP coalition raised the share of religious expenditures to 0.31 percent relative to GDP. Besides, after the 1994 crisis, it was again reduced back to 0.20 percent. Starting with RP-DYP coalition, allocated funds to religion sector started to increase until 1999 which has the historically highest figure. In the first budget year of DSP-MHP-ANAP coalition, the appropriations stood almost constant. Due to the effects of 2001 crisis, a decline was observed in the allocations, but it started to increase in 2002 and 2003 with AKP government (Figure 20).

Additionally, governments directly transfer funds to foundations and associations as state aid, through the appropriations in MoF budget. Budgets show that first time in 1996, DYP-CHP government started to directly transfer funds to religious organizations. In this respect, Ahmet Yesevi Foundation was awarded with around USD 123.000. There was no transfer to religious non-governmental organizations during RP-DYP coalition. However, ANAP-DSP government not only restarted the transfers to religious non-governmental organizations, but also increased the number of awarded institutions and the transferred amount. 1998 budget includes the highest transfer amount to these institutions. ANAP-DSP government programmed public funds transfers to Ahmet Yesevi Foundation, Anadolu Erenleri Culture and Art Foundation, Hacı Bektaş Veli Anatolia Culture Foundation, Turkey Religious Education Foundation and Turkey Religious Foundation. In 1998, during his first year in the office, Minister of Finance Zekeriya Temizel had authority to grant USD 1.8 million state aids to non-governmental organizations and 90 percent of this amount was programmed to transfer to the Alevi foundations.

In 1999, around USD 393.000 was allocated in MoF budget to grant four different non-governmental organizations and 85 percent of these appropriations were allocated to the Alevi foundations. During DSP-MHP-ANAP, Minister of Finance was Sumer Oral and in 2000, 84 percent and in 2001 and 2002 92 percent of the appropriations that were transferred to non-governmental organizations were allocated to Alevi foundations. Total allocated amount was around USD 364.000 during 2000-2002 period.

Detailed list of transfers to non-governmental organizations were provided in the budget; however, starting from 2003 budget apart from the total appropriation amount which was equivalent of USD 167.440, no information is given regarding the names of the associations and foundations which were awarded for state aid. Therefore, it is not possible to determine how much budget funds allocated to religion under the name of non-governmental organizations awarded for state aid by AKP government.

#### **5.4. Budget Expenditures on Public Goods and Private Goods**

The influences of politicians on decision taking is limited in budget processes as discussed in Chapter 3, because of the factors such as sophistication of budget cycles and the constraints coming from the

constitution. On the other hand, deciding on the goods and services that will be provided by public sector is under jurisdiction politicians. Therefore, provision of goods and services either by private sector or public sector has been an important decision taken by governments. Some of the goods cannot be provided by market sector, such as judiciary and military, called as “public goods” (Samuelson, 1954). The coverage of public goods may change according to the political and ideological structure of the state. Therefore, considering that the coverage of public goods may only be changed by regulations, provision of goods and services by public sector becomes critically important from this study’s point of view. Public goods may be pure or impure (Hillman, 2003), accordingly politicians mainly take decision on the mixed goods, in this respect transportation, education and health are treated as publicly provided private goods by academicians (Samuelson, 1954, Musgrave, 1969, Hillman, 2003) and the OECD study (2005) which I have borrowed the classification of budget expenditures, in this study.

In order to explore the changing balances between politicians and bureaucracy, based on the OECD classification, I will discuss the developments in public goods in this section and publicly provided private goods will be discussed in the following section in detail.

The figures show that there are three trends and two anomalies during the period of 1980-2003 (Table 11). First, during the military government and the first budget year of ANAP government, from 1980 budget to 1984 budget, expenditures were allocated for publicly provided private goods.

Second, there was a reverse positioning in the balance of public and private goods, and thereafter a relatively stable period from 1985 to 1990. After taking the office, single party ANAP government structurally changed the expenditure patters on public and private goods and kept it constant during the whole term. Excluding interest payments clearly shows that followers of ANAP governments did not make any significant change in the composition of expenditures on public and private goods. Due to an increase in public goods and a decline in private goods in respect to GDP, public goods doubled the private goods. This radical changing in the balance indicates a strong political will.

Finally, there was a trend which starts in 1990 and ends in 2003. This last phase was dominated with a continuous increase in public goods over GDP ratio and also includes two anomalies caused by the deep crises in 1994 and 2000-2001. Due to the crisis, upward trend in public goods relative to GDP was suspended in 1995 and 2001. Diversion from the trends was not observed in 1994 budget, because it was prepared and accepted in 1993, due to the budget calendar, however the influences of crisis might be seen in 1995 budget since it was prepared in 1994, under the post crisis circumstances. Besides, one of the reasons behind the increase in public goods as a part of this trend was the boosting of interest payments. The influences of rising interest payments on power relations will be discussed in Section 5.6.2. .

**Table 11. Expenditures on Public Goods and Private Goods (%GDP)**

<b>Ruling Party in Charge</b>		<b>Public Goods</b>	<b>Public Goods (exc. Interest)</b>	<b>Private Goods</b>
AP	1980	6%	5%	8%
MILITARY	1981	9%	8%	10%
MILITARY	1982	8%	7%	9%
MILITARY	1983	9%	8%	10%
MILITARY	1984	7%	6%	8%
ANAP	1985	11%	7%	5%
ANAP	1986	9%	7%	5%
ANAP	1987	10%	7%	5%
ANAP	1988	12%	7%	6%
ANAP	1989	9%	5%	5%
ANAP	1990	10%	6%	7%
ANAP	1991	10%	7%	7%
DYP - SHP	1992	11%	7%	8%
DYP - SHP	1993	12%	8%	8%
DYP - SHP	1994	13%	8%	8%
DYP - SHP	1995	11%	6%	6%
DYP - CHP	1996	17%	8%	7%
RP - DYP	1997	14%	8%	8%
ANAP - DSP	1998	19%	8%	9%
ANAP - DSP	1999	23%	10%	12%
DSP - MHP - ANAP	2000	27%	10%	11%
DSP - MHP - ANAP	2001	17%	8%	10%
DSP - MHP - ANAP	2002	24%	8%	12%
AKP	2003	27%	8%	14%

On the other hand, even the level of public goods steadily increased during 1980-2003 period, comparing to OECD countries, the average is relatively low in Turkey. Re-classification of budget expenditures made it possible to have a comparison. In OECD study (2005) countries are classified according to budget size starting from 1995, and it shows that average of expenditures over GDP ratio is less than 30 percent for Canada, Mexico and USA; between 30-40 percent for Germany, New Zealand, Spain, Sweden (after 1999) and UK; higher than 40 percent in France, Italy, the Netherlands, Sweden (before 1999) and the differentiation mainly comes from private goods. In Turkey, average of total expenditures in GDP is around 21 percent for the period of 1980-2003 and 30 percent after 1995. However, apart from the countries analyzed by OECD, disparity is mainly stems from public goods in Turkey's case.

Besides, while there is a tendency among mentioned countries, except France, Germany, Italy and Mexico, to decrease budget spending as a share of GDP, decrease in sample countries exclusively comes from private goods, especially subsidies and social transfers. On the other side, in Turkey's case, not only the share of budget expenditures in GDP has been increasing from 17 percent to 41 percent since 1995, but also the reason behind this increase is rising of budget expenditures on public goods.

From the public goods perspective, OECD (2005) classifies countries into three groups. First group consists from New Zealand and Mexico which have lower than 8 percent of expenditures on public goods over GDP. Second group includes Canada, Germany and USA where budget expenditures on public goods is around 8-12 of GDP. Last group that covers the Netherlands, Spain, Sweden and UK has budget expenditures on public goods more than 12 percent of GDP. In Turkey, average is 20 percent in 1995-2003 period, however when interest payments are excluded, this ratio declines to 8 percent. Differences among sample countries mainly come from defense, public safety and order and interest payments. In Turkey, interest payment is the main determinant.

Turkey strictly deviates from other countries, from the private goods perspective, both in long and short term performance. The period since 1995 shows that less than 15 percent of GDP for expenditures on private goods in Canada, Mexico and USA. Same indicator was between 15 percent and 30 percent for Germany, Italy, New Zealand, Spain, Sweden (since 1999) and

UK. In France, the Netherlands and Sweden (before 1999) the ratio for expenditure on private goods over GDP was more than 30 percent. In Turkey, same ratio was 8 percent between 1980-1995 and 10 percent for the period starting from 1995.

Expenditure patterns on public and private goods tend to be overwhelmed by the effects of different interests of social sectors. Therefore, it is not possible to identify the influences of underlying factors by only analyzing the composition of spending on public and private goods. However, as indicated by OECD study (2005) the development of expenditure patterns may show what outcome prevailing institutions have not prevented from occurring or have not been able to safeguard. Since it is a fact that only the politics may change the coverage and composition of public goods and private goods that are publicly provided, and analyzing the empirical data allows us to identify the redistributive motive behind the budgetary policies.

Patterns of expenditures differ in the public goods and publicly provided private goods. The long-term development of public goods other than the interest payments has a stable structure and implies the outcomes of incremental budgeting. In most of the countries, general public services and health expenditures as the sub categories of public goods have grown faster than GDP because of the ageing problems. Besides, expenditures on defense, basic research and education have grown slower.

On the other side, analyzing of private goods figures shows that, in contrast to the policies that were introduced by first ANAP governments in the second part of 1980s, private goods have grown faster than public goods when interest payments excluded, in the second period of ANAP as a member of coalition government with DSP. Later, during early 2000s, tri-party coalition continued with the expenditure patterns of this policy change and new level of private goods kept constant. Also, single party AKP government embraced this policy change; moreover AKP government enhanced the size of private goods, provided by public sector.

### **5.5. Supporting the Market Sector**

As discussed in Chapter 3 and Chapter 4, governments provide public goods and publicly provided private goods, and the quality and quantity of these goods are determined through the governmental decision-making

processes. Especially the questions on the burden sharing and identification of beneficiaries attract the interest of different social groups. Besides, determination of private goods which will be provided by states sets a limitation for market. In this regard, market sector either competes with the state sector for the provision of these goods and services or in some cases cannot even supply them.

On the other hand, it is a fact that very limited number of goods and services are pure public goods and the rest are considered as a mixed goods or private goods. Public services such as education and health have been the task of central government in Turkey but those are not categorized as pure public goods, because of their characteristics as discussed in the following sections. Therefore, private sector's interest on mixed and private goods mainly comes from their perception on crowding out of the market by state sector. In this respect re-definition of expenditures means redistribution of power through the transferring mechanisms of budget, and as a result transferring of ownership of means of production from public sector to market sector.

Based on the OECD study (2005) private goods may be evaluated under two main categories; first category involves direct transfers such as subsidies to market sector and social transfers and second category includes allocated public resources to mixed and private goods.

Budget expenditures on private goods have similar trends with public goods. There are three phases in the development of private goods over GDP ratio. Until the end of military government share of the private goods relative to GDP stayed constant at the level of 8 to10 percent. As mentioned above after taking of the office by ANAP government share of the private goods declined to almost half of the previous levels. Due to the shrinkage of budget resources as a result of 1994 crisis, the budget expenditures on private goods declined, similar to public goods. However, starting from 1996 budget, share of private goods in GDP steadily increased in the office terms of all governments, excluding 2001 crisis. The reasons and the outcomes of 1994 and 2000-2001 crises were discussed in section 5.1. Socio-economic and Political Environment.

**Table 12. Breakdown of Private Goods (% GDP)**

		Subsidies to Market Sector	Education	Health	Social Serv.	Social Trans.	Public Cont. to Non- profit Sector	Dev. Assist.
AP	1980	4,2%	2,3%	0,6%	0,5%	0,1%	0,3%	0,0%
MILITARY	1981	5,8%	2,4%	0,7%	0,6%	0,2%	0,3%	0,0%
MILITARY	1982	4,7%	2,3%	0,5%	0,6%	0,2%	0,3%	0,0%
MILITARY	1983	5,1%	2,7%	0,5%	0,5%	0,3%	0,3%	0,0%
MILITARY	1984	4,0%	2,0%	0,5%	0,6%	0,2%	0,2%	0,1%
ANAP	1985	1,6%	1,7%	0,4%	0,6%	0,3%	0,2%	0,0%
ANAP	1986	1,4%	1,6%	0,4%	0,5%	0,7%	0,2%	0,0%
ANAP	1987	1,5%	1,6%	0,4%	0,6%	0,7%	0,2%	0,0%
ANAP	1988	1,9%	1,9%	0,4%	0,6%	1,1%	0,2%	0,0%
ANAP	1989	1,4%	1,8%	0,4%	0,6%	0,7%	0,2%	0,0%
ANAP	1990	1,5%	2,8%	0,7%	0,4%	0,8%	0,3%	0,0%
ANAP	1991	1,5%	3,1%	0,7%	0,3%	0,8%	0,4%	0,0%
DYP - SHP	1992	1,8%	3,5%	0,9%	0,3%	0,9%	0,4%	0,1%
DYP - SHP	1993	2,1%	3,6%	0,9%	0,4%	0,8%	0,4%	0,0%
DYP - SHP	1994	2,3%	3,2%	0,8%	0,6%	0,6%	0,4%	0,0%
DYP - SHP	1995	1,5%	2,3%	0,6%	0,8%	0,5%	0,3%	0,0%
DYP - CHP	1996	1,5%	2,4%	0,7%	1,7%	0,6%	0,3%	0,0%
RP - DYP	1997	1,5%	2,1%	0,7%	1,9%	1,2%	0,3%	0,0%
ANAP - DSP	1998	1,4%	3,2%	0,7%	2,7%	0,7%	0,3%	0,1%
ANAP - DSP	1999	2,2%	3,7%	0,9%	3,1%	1,3%	0,4%	0,2%
DSP - MHP - ANAP	2000	2,1%	3,6%	0,8%	2,9%	0,9%	0,3%	0,2%
DSP - MHP - ANAP	2001	1,9%	3,2%	0,7%	2,5%	0,8%	0,3%	0,2%
DSP - MHP - ANAP	2002	2,3%	3,7%	0,8%	2,9%	1,4%	0,3%	0,2%
AKP	2003	2,6%	3,9%	1,0%	4,2%	2,0%	0,4%	0,2%

On the other hand, not only the size of private goods but also its breakdown has been changed during the 1980-2003 period. Table 12 shows that the share subsidies to market sector were more than 52 percent of total expenditures to private goods in 1980 budget. However, it declined around 33 percent in 1985 and continued to diminish continuously.

At the same time, the share of expenditures to social services in the total changed drastically. Until 1996, social services relative to expenditures to private goods was not higher than 10 percent, but starting with DYP-CHP coalition government the share of social services in total increased steadily and reached 30 percent.

In addition to the developments on above mentioned private goods, education and health, as both publicly provided private goods and tools for the implementation of social politics, will be discussed in detail in the following sections. Besides, other transfer items to market sector are evaluated as well in Section 5.5.3. Transfers. I will leave out of account the expenditures on development assistance that includes mainly official aids to other countries, since it is neglectable and almost zero until 1999. It then increased to 0.2 percent of GDP because of the political risk payments to Turkish Eximbank and credits to other countries.

The coming sections discusses that to what extent budget expenditures on education and health are reduced in order to create a space for market sector and how much private sector is supported through the transfers such as subsidies to market sector and social transfers.

### **5.5.1. Education**

Education is one of the institutions considered as an ideological state apparatus for social scientists point of view such as Poulantzas and Althusser. It has a critical importance for the maintenance of capitalism and to persuade people who are not from the ruling class to their ideology. This section determines the amount allocated to education and includes a brief overview of state's education policy in order to explore the rationale behind the changing allocation amounts.

The methodology employed by OECD (2005) considers education as publicly provided private good. Because, at least theoretically, all forms of education can be exclusionary, although it is impossible to exclude a citizen from the benefits of his country's national defense. Therefore, it is possible to exclude a student to access education. Primary education has been compulsory in Turkey; but illiteracy rate was 32.5 percent in 1980 and 12.7 percent in 2000 (Table 13). As figures show a significant amount of population who are mainly females, has been excluded from the education services. Therefore, illiteracy rates support the arguments that education is a private good. On the other side, due to its obligatory structure for the citizens, and the governments' requirement to provide primary education to the citizens without any charge, primary education may be evaluated as a public good.

**Table 13. Literacy Rates**

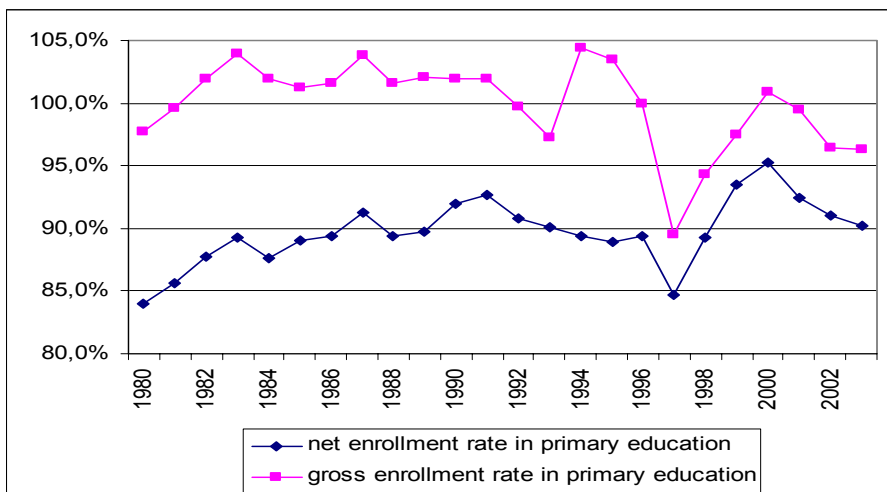
	Illiteracy rate (%)			Literacy rate (%)		
	Total	Female	Male	Total	Female	Male
1980	32,5	45,3	20,0	67,5	54,7	80,0
1985	22,6	31,8	13,5	77,4	68,2	86,5
1990	19,5	28,0	11,2	80,5	72,0	88,8
2000	12,7	19,4	6,1	87,3	80,6	93,9

Source: TurkStat

Studies to lengthen the primary education to eight years went back to 1973, therefore, the Basic Law for National Education (Law: 1739) determined the duration of compulsory basic education as 8 years. However, due to the inadequacy of financial resources and lack of the required number of teachers, governments could not enforce the compulsory education and in 1983 the Law 1739 was amended as to require compulsory education where the physical infrastructure was in place (Dülger, 2004).

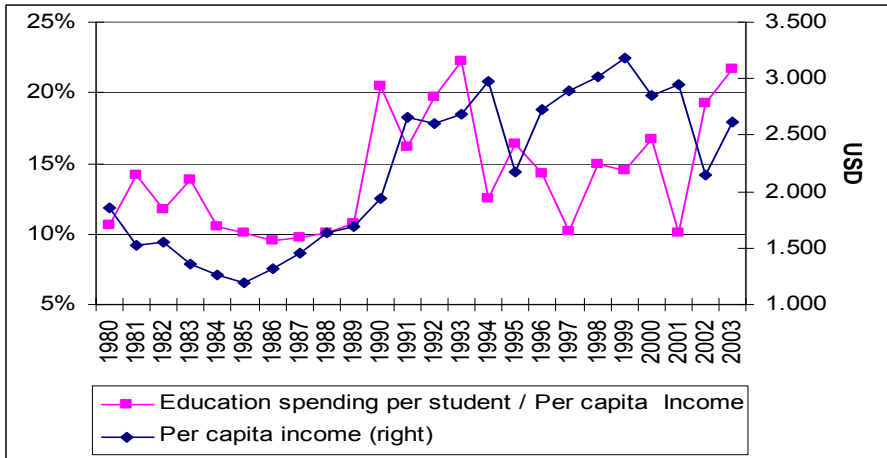
During the military government net enrollment rate of children for primary education had increased considerably. Then, a relatively slow increase observed and it could only reach to 93 percent in 1991. However, net enrollment rate started to decrease down to 89 percent till 1996. On August 18, 1997 within the period of ANAP-DSP government Basic Education Law, numbered 4306, was enacted and compulsory primary education period increased to 8 years, by adding up the first step of secondary education into primary education.

Introduction of Basic Education Law caused a drastic decrease in enrollment rate, but rapidly recovered in 1999 and then reached to its historically high level of 95 percent in year 2000. However, starting from the crisis year, 2001, a continuous decrease has been observed and the rate declined to 90 percent in 2003, during the AKP government (Figure 21). World Bank (2005) states that enrollment increased by over one million students in the six years following the law's enactment.



**Figure 21. Primary Education Enrollment Rates**

Education expenditures over GDP ratio show an increasing trend. However, budget resources allocated per student relative to per capita income gives an indication that to what extent governments subsidizes citizens for education. Figure 22 shows that budget expenditures for education per student had a stable structure, around 12 percent, of per capita income which was declining until 1985. During the period of 1985-1994 when per capita income was continuously increased, budget expenditures also increased in a parallel pattern. However 1995-2001 period, there was an increase in per capita income but the ratio was decreasing. This relative change implies an increase on the financial burden of citizens regarding the education spending (Figure 22).



**Figure 22. Leaving Education to the Market**

Because of the fragmented structure of fiscal policy implementation, and budget's weak coverage, public expenditures on education show a fragmented structure as well. Public funds allocated to education were EBFs, budgetary funds (Law 4306 for Basic Education, Law 4318, Law 3308), revolving funds, aids from the citizens, associations and foundations, external resources in addition to budget appropriations to MONE and to other central government agencies providing educational services. Especially with the introduction of eight-year compulsory education, total spending increased since some of the taxes and levies were earmarked to meet additional cost of this new program. Besides, out-of pocket expenditures on education have a significant share in the budgets of citizens. Due to the declining share of public sector in education services and increasing involvement of market sector burden of educational spending boosts on families.

Education services are not only financed both by public and private sector in Turkey, but also in other countries. World Bank's Report (2005) states that including public and private sector, total education spending reached approximately 7 percent in 2002 as a proportion of GDP, or about US\$13 billion. This amount accounts for recurrent expenditures only. Spending on investments, such as school construction and rehabilitation, represents no more than 2 percent of total recurrent spending per year and is not included in this analysis. This spending level is one of the highest with

comparison to Germany (5.3 percent), Finland (5.8 percent), France (6.0 percent), Greece (4.1 percent), and Hungary (5.2 percent) Denmark (7.1 percent) and the United States (7.3 percent). However, as shown in Figure 23, Turkey allocates a smaller share of public spending to education from budget resources. Turkey's total spending on education is quite high due to exceptionally high private expenditures, which represent 36 percent all recurrent spending. World Bank's Education Sector Study (2005) reports that only Korea—where private sources of funding account for 41 percent of total spending on education—has a similarly high share of private financing of education expenditures. Only 64 percent of the education expenditures financed by budget and off-budget resources and this is much lower than the OECD countries, including Finland (98 percent), France (93 percent), Germany (81 percent) and the United States (70 percent).

In Turkey, considerable amount of education spending has been financed by private out-of-pocket spending. Almost 31 percent of out-of-pocket expenditures are directed towards public universities while 27.5 percent allocated to public primary schools and 13.3 percent to public general high schools. Private primary and secondary schools and private universities are receiving the remaining one-quarter. Additionally, National Education Accounts results show that private preparatory training programs (Dershane), at various levels of education (from primary to university level), accounted for 813 trillion TL, equivalent to 4.2 percent of total spending on education. These private preparatory training programs prepare students for secondary school student selection and placement examination, and university selection and placement examination. These are entirely financed by families of the students and as of 2002, absorbing almost 12 percent of private out-of-pocket spending on education. (Dülger 2004, World Bank, 2005)

The adoption of the Basic Education Law was a breaking point for the education expenditures both in total and per student, but findings of recent studies indicate that financial resources do not appear to be allocated with the aim of reducing inter-regional, inter-provincial, or urban-rural educational disparities. Empirical evidence confirms that significant disparities still remain in access to educational services and allocation of inputs between genders, social and economic classes, and geographic locations (Metek 2004, Hosgör 2004, and Berberoğlu, 2004). For example,

average expenditure per student was approximately YTL 1,250 (US\$925) in 2004, but in some provinces, especially in the southeastern and eastern regions of the country, education spending per student was only about half of that amount. Given that students in these regions are the worst-performing students in the country (Berberoğlu 2004), figures indicate that targeting financial resources to these provinces did not considered by the governments during the entire period of this study.

**Table 14. Incidence of Public Spending on Education: Improvements between 1994 and 2001**

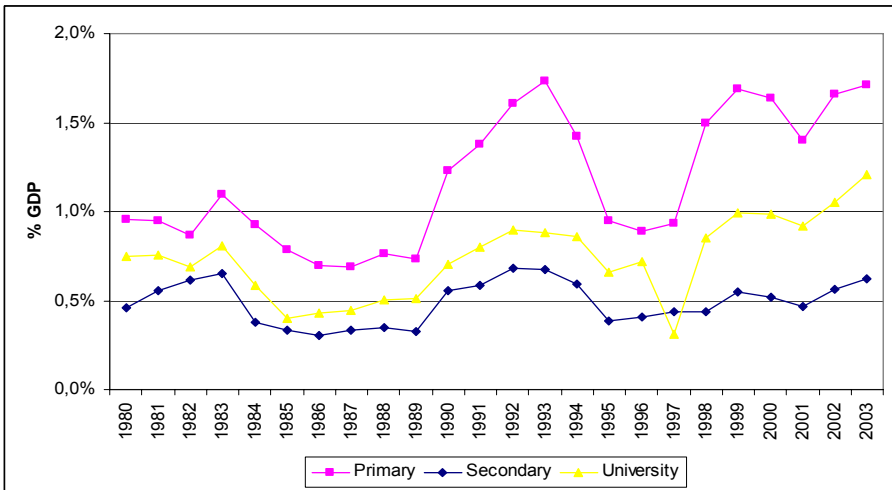
	Household Income Quintiles				
	1 (poorest)	2	3	4	5 (richest)
<b>1994</b>					
Basic education (8 years, primary + middle)	15,8%	21,1%	22,2%	20,6%	20,3%
Secondary education	8,7%	16,2%	22,3%	25,4%	27,5%
Total public expenditures	13,5%	19,5%	22,2%	22,2%	22,7%
<b>2001</b>					
Basic education (8 years)	21,7%	21,4%	21,0%	22,0%	13,9%
Secondary education	13,0%	14,6%	25,4%	22,8%	24,2%
Total public expenditures	19,2%	19,2%	22,3%	22,2%	16,9%

Mete (2004) Estimated from 1994 Household Expenditures Survey and 2001 Consumption and Income Survey.

Table 14 points out that the balance of public spending between income groups has significantly improved after the introduction of the compulsory Basic Education Law, but OECD (2004a) draws attention that there is a gap in learning achievements<sup>17</sup> between Turkish and European students, which may negatively influence Turkey's competitiveness as a nation, if highly industrialized countries continue to invest heavily in improving their education systems. Since there are deviations in school quality in every level, starting from 1990s, there has been an increasing demand for the quality secondary and higher education. Children who are the members of low income groups will have additional disadvantages

<sup>17</sup> Only 26 percent of 15-year-old students in Turkey are able to apply even simple problem solving techniques in mathematics (Proficiency Level 3 on OECD's 6 level proficiency scale). The comparable percentage of students attaining Level 3 or above among European Union members is 60 percent.

because their educational opportunities are bounded by poverty, and families from high income groups support their children’s learning achievement with the contributions of private preparatory training programs and private tutoring (Tansel and Bircan 2004a, Tansel and Bircan 2004b). Consequently, children’s of lower income groups cannot benefit enough from the advantages of accessing quality education, and have limited chance to enhance their social status, due to the redistribution effects of educational spending.



**Figure 23. Education Expenditures**

The average of budget expenditures on education is limited to 2.7 percent of GDP during the period of 1980-2003. Enactment of Basic Education Law has been a milestone for the allocated budget appropriations since the average of allocations to education increased 3.5 percent of GDP after starting of 8 year compulsory basic education, while the same ratio was 2.4 before 1998. On the other side, Figure 23 demonstrates that during 1980-1997 period, the highest budget resources were allocated to educational spending by DYP-SHP government (1992-1996) with an average of 3 percent of GDP. Figure 23 also shows that around 45 percent of public spending for education is devoted to public primary schools in average, followed by universities with 28 percent, and public technical schools and general high schools with 19 percent. Excluding 1997 budget, which was prepared and submitted by RP-DYP coalition government, universities got the second highest share from the budget. However, resources allocated to

universities drastically declined from 0.72 percent of GDP in 1996 to 0.31 percent in 1997. Starting with the ANAP-DSP coalition, share of universities first reached to 0.8 percent and then exceeded 1 percent relative to GDP.

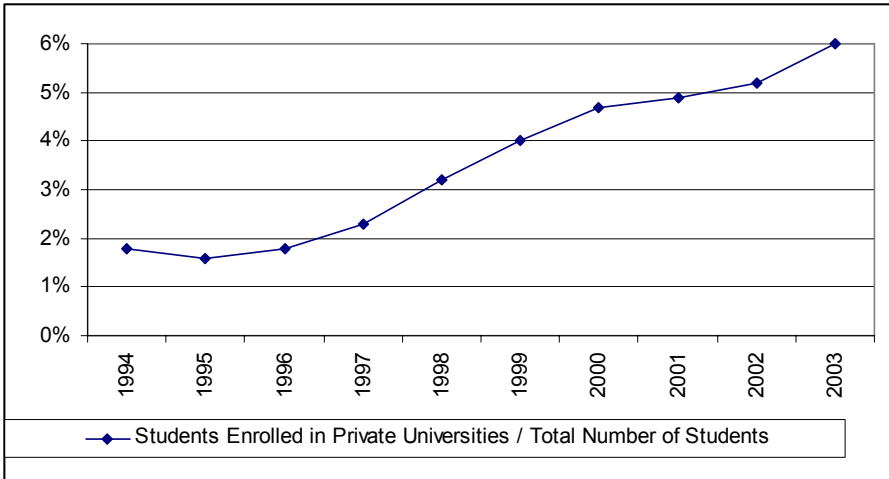
The eight-year Basic Education Program involved a broad range of actions that were financed largely by government revenues, although private enterprises and international development organizations also made significant contributions. Total annual expenditures for the Basic Education Program have been on the order of US\$3 billion. These outlays included investments in the construction of new schools; the renovation or expansion of existing schools; a massive provision of computers, educational equipment, and educational materials; recurrent spending on the remuneration of teachers and other educational staff, as well as new recruitment and additional staff training. Using a combination of government and private contributions, the MONE built 81,500 new primary-education classrooms during the five-year period in 1997–2002, increasing classroom supply by 30 percent. (World Bank, 2005)

Public spending for primary and secondary education has been categorized under MONE budget. However, until the establishment of Higher Education Council in 1983, transfers to academies were allocated from MONE budget and transfers to universities were allocated from MoF budget. Starting from 1983, budget resources to higher education have been transferred only by MoF. 19 universities and 13 academies were funded by budget resources in 1980, while the number of academies increased to 14 in 1981 and the number of universities increased to 20 in 1982, adding up Middle East Technical University (METU). The total amount of higher education institutions, funded by budget, was 34 as of 1982. However, in 1983, with the closure of some of the academies, the number of higher education institutions declined to 27 and all of them were universities. Parallel to decline in the number of universities and setting MoF as the only authority to transfer public funds to higher education, a significant decrease observed in budget appropriations for education. Budget spending per student in higher education decreased from USD 2182 in 1980 to USD 1561 in 1983. Establishment of Gaziantep University increased the number of universities funded by budget to 28 in 1988 and it stayed constant until 1994. However, public spending per student declined to USD 606 in 1985 then

raised gradually USD 1471, even the total budget allocations relative to GDP increased slightly during this period.

Although the foundation of 23 universities in 1992 required additional transfers to higher education, appropriations were allocated in state budget for these 23 new universities first time in 1994. Besides, İzmir Institute of Technology, Gebze Institute of Technology and Ahmet Yesevi University in Kazakhstan were also get appropriation this year. However, increasing number of universities did not result in an increase in budget transfers to universities and its amount relative to GDP stayed constant in 1994 as 0.9 percent comparing to 1993. Moreover, even there were 54 higher education institutions, budget transfers relative to GDP reduced to 0.7 percent in 1995 and 0.3 percent of GDP in 1997. Consequently, budget spending per student first declined to USD 1076 in 1995 and to its historically lowest level of USD 448 in 1997. With comparison to 1994, allocations of some of the universities such as Anadolu University, Ankara University, İstanbul University and METU declined more than 80 percent in USD terms as of 1997. Transfers to 42 of 54 universities reduced with an average of 46 percent. Only 12 universities' allocations increased around 42 percent in average, and the highest increase was observed in Ahmet Yesevi University as 202 percent, probably due to the construction expenditures. In 1997, appropriations of İzmir Institute of Technology increased 149 percent and Kırıkkale University 50 percent.

In 1998, ANAP-DSP government increased the transfers to higher education relative to GDP to 0.8 percent. This increase almost tripled the budget spending per university student and it reached to USD 1175. Until 2000, increase in budget spending per university student continued and rose to USD 1314, however, due to the influences of economic crisis, it again went down to USD 802.



**Figure 24. Students Enrolled in Private Universities**

Depending on the declining budget expenditures per university student, and increasing number of private universities, students enrolled in private universities increased more than triple in less than ten year (Figure 24). Dikmen (2003) argues that through the private universities, domination of private sector in education system increased and it deepened social inequalities in the society. The student from higher income families can enroll to the private universities that have significant differences in terms facilities offered to students. Emphasizing a report of Higher Education Council, Dikmen (2003) states that income level of families of the students who are studying in private universities are 2.5 times higher than the families of students studying in state universities. Besides, thank to the private preparatory training programs, income level of families of students who are studying in some of the competitive state universities, like Boğaziçi University, METU, Galatasaray University, has 2 to 3 times higher comparing with the students of other state universities.

As a result, illiteracy rate has been declining since 1980, but still a significant amount of female citizens has been excluded from education services and budget allocations are not enough to cover all population who are in the age of compulsory education. The average of budget appropriations relative to GDP was around 2.4 percent during military government and it then declined to 1.7 percent till the end of 1980s. Until the

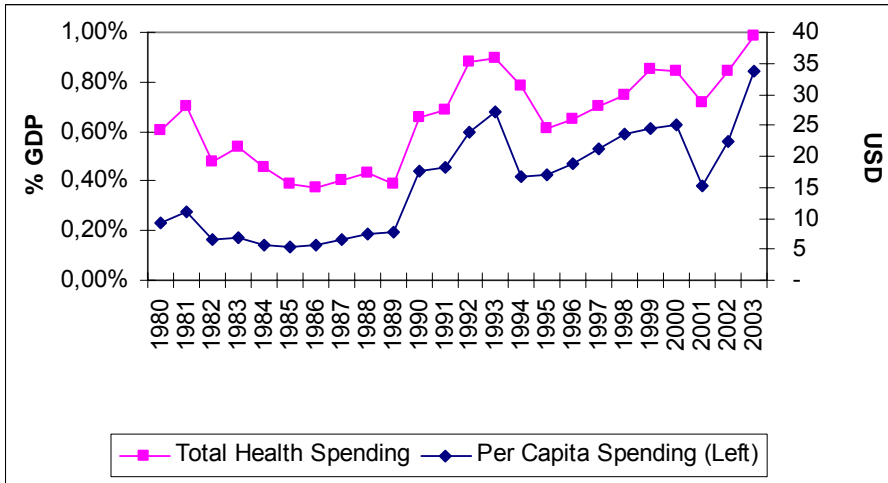
enactment Basic Education Law in 1997 expenditure on education services increased 2.9 percent on average and 3.5 percent in the period of 1998-2003. On the other side, education spending per student declined from US\$ 597 in 1993 to US\$ 295 in 2001. Additionally, as stated above budget contribution to families' educational expenditures was also decline. This increased the importance of out-of-pocket expenditures in order to access better quality education services and remove inter-regional and urban-rural disparities coming from weak financial sources allocated by state. In this regard, as a reflection of redistributive policies withdrawal of state from the supply of educational services, declining quality or increasing disparities, created a space for market sector to involve in a critical social policy area either through the private primary and secondary schools or universities or preparatory training programs.

### **5.5.2. Health**

Similar to education, social services and health are also exclusionary, since it is possible to exclude certain members of society from being vaccinated. However, different from education, social services and health are treated as private goods with negative externalities. On the other hand, government's role in providing health services is to provide equity since poor cannot always afford health care and governments supposed to make accessible them to improve productivity and well-being. However, there has been no universal health insurance in Turkey and unlike with the education, health services opened to market sector long years ago. Suppliers of health services are very much fragmented in Turkey and these are broadly categorized in two groups as state sector and market sector. State sector includes the hospitals of Ministry of Health (MoH) (called as state hospitals by the citizens), Social Insurance Institution, state economic enterprises and universities while market sector covers the private hospitals, clinics, doctors' private consulting offices and dentists' offices. Significant number of private consulting offices was run by doctors employed in public hospitals, even they were civil servants. As of 1998, 47720 of doctors which refer to 67 percent of total number of doctors in public hospitals were working on part-time basis, while only 23958 of doctors, 33 percent of the total, were working on full-time basis (Tokat, 2001).

On the other side, state expenditures which have been done by the state are not limited with budget resources. In addition to MoH, Social

Insurance Institution, The Social Insurance Agency of Merchants, Artisans and Self-Employed, Government Employees Retirement Fund, state economic enterprises, Ministry of Defense and other ministries and universities allocate resources to health services. Besides, similar to education services, out-of-pocket expenditures by citizens takes an important part of total expenditures on health in Turkey.



**Figure 25. Budget Spending for Health**

Figure 25 shows the amount of budget appropriations relative to GDP. Similar to education expenditures, significant part of health spending has been financed by off-budget resources and a high level of private sector funds also are allocated to health sector. Gönenç, et. al (2005) argues that 5 percent of GDP spent by state sector annually. Almost all of the hospitals have its own revolving fund revenues and those are basically generated from the fees paid by individuals or third party insurers for services. Fees are determined by a commission consisting of MoH and MoF representatives without considering the actual cost of the services. Additionally, starting from 1988, additional funding has been available from earmarked taxes on fuel, new car sales, and cigarettes through the EBFs.

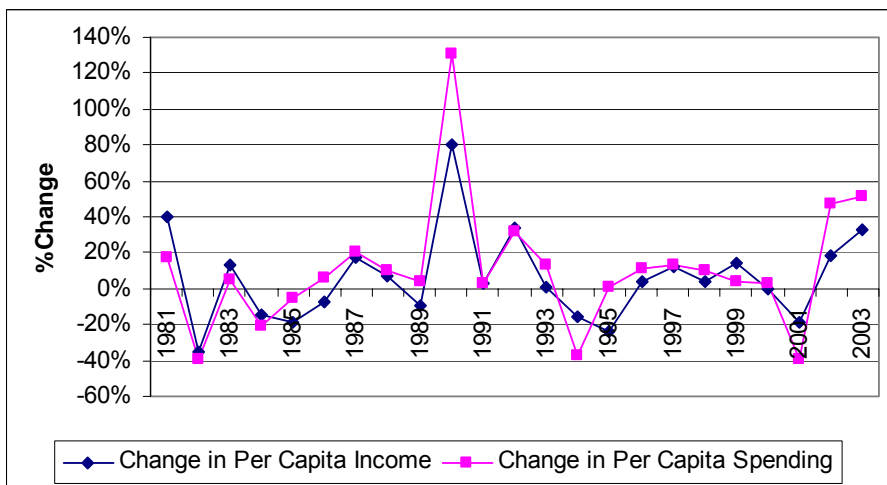
Similar to state hospitals, university hospitals also have two main funding sources: the state budget allocations and universities’ revolving funds. The state budget covers both recurrent expenditure and capital expenditure. Through rational pricing policies, the revolving fund revenues

of the universities have been strengthened when compared to state hospitals' revolving funds revenues.

In 1987, Basic Law on Health Services was enacted to increase the budgetary allocations to health sector, but in practice only marginal increases could be achieved, delivery, financing and management of reform were far away from the targets which were equity and access to health services (World Bank, 2001). Starting with DYP-SHP coalition government, as an introduction to universal health insurance, Green Card system was launched. Health expenditures of the citizens who are unable to pay costs of health care services started to be covered by existing social health security schemes in 1992. Approximately 6.7 million people included in the Green Card system in the first few years' of implementation (Giray, 2003).

In 1993, MoH announced "The National Health Policy" to set three main priorities and strategies in health sector. These three priorities and strategies were on maternal and child health, communicable diseases, cardiovascular diseases and inequality. However, The National Health Policy was never formally accepted as government policy and almost no aspect of this framework was implemented and it stayed as a fancy document prepared by bureaucracy (World Bank, 2001).

As a result of unsuccessful initiatives in health sector, dispersed structure of health service providers continued and a considerable number of citizens, who are already registered for a social insurance organization, paid premium to buy a health insurance from private insurance companies, or through the out-of-pocket expenditures provided health service from the private hospitals and clinics, or revolving funds of universities and other state hospitals. People were willing to pay premiums to both social security organization and the private health insurance company or private hospitals to receive better health services and feel themselves secure. As of 2001, about 40 insurance companies were providing private health insurance, with a total coverage of 655.703 insured and a total premium income of 188 million USD (Giray, 2003). Therefore, as of 2000, private out-of-pocket expenditures on health sector almost reached to 20 percent of total health expenditures in Turkey. (World Bank, 2001)



**Figure 26. Change in the Health Spending**

Figure 26 shows that health expenditures allocated by budget has an incremental structure, and even there were some initiatives as mentioned above, any of the governments has not been intervened to increase the share of health spending more than allowed by the expansion of economy. Constant structure of per capita health spending, relative to per capita income indicates that including the DYP-SHP government, governments preferred to keep fragmented structure of health system and systematically left an increasing space to market sector to provide health service to citizens. Therefore, it is possible to argue that through the policies of reducing investment of the state sector, the health services have become more open to the market sector during 1980-2003 period.

Figures clearly indicates an intention for an implicit privatization in health sector, since number of private sector hospitals increased 68 percent, from 155 in 1988 to 261 in 2000. On the other side, in the same period, increase in the number of bed was more dramatic; 218 percent, from 5500 to 12200. Significant part of this rapid increase was occurred in 1995-2000 period, the number of hospital bed was increased 93 percent in private sector while the increase was only 13 percent in Ministry of Health's hospitals (Belek, 2001). Besides, public hospitals and universities encouraged citizens for out-of-pocket spending in order to get special medical examination and priority in some of the health services such as medical scanning. These out-of-pocket spending have been transferred to revolving funds of hospitals and

an increasing part of the expenditures of hospitals financed through revolving funds. Besides, revolving funds make supplementary payments to health sector staff. Belek (2001) underlines that as of 2000, 60 percent of the expenditures of public hospitals and 70 percent of university hospitals were financed by revolving funds. These figures indicate an increasing dependency on revolving fund revenues, consequently out-of-pocket spending.

Changing policies in health sector, and opening health services gradually to the market, may be observed through the increasing share of health services provided by private sector to public sector. As a part of mentioned policy changes; public officials and employees registered to Social Security Institution are allowed to apply private hospitals. Besides, Social Security Institution allowed its members to provide medicine from private pharmacists during 1980-2003 periods. Therefore, in 1980, the share of health services received by Social Security Institution from private hospitals was 6 percent of total; however it was realized as 27 percent in 1998 (Belek, 2001). Historically Turkish citizens were used to apply private physician consultation offices and dentist's offices; however, state sector directed citizens to organized health institutions and hospitals that are financed by market sector, instead of individual physicians and dentists.

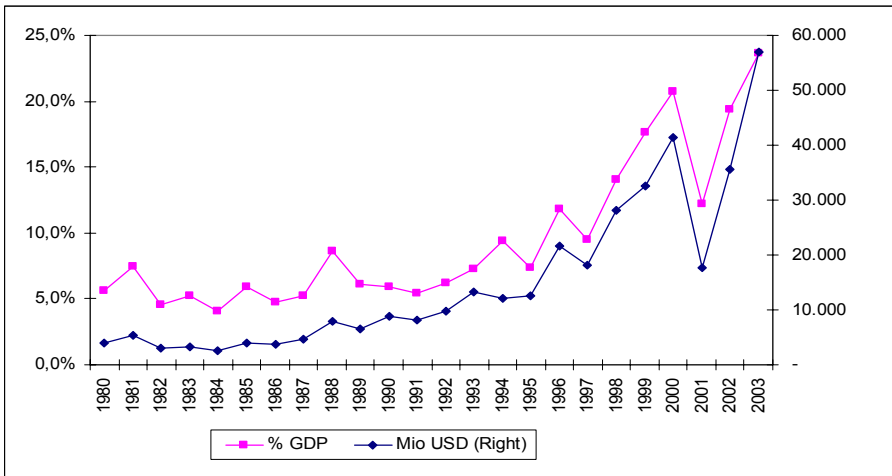
As a result, with the supports of governments health services being evolved from publicly provided private goods to privately provided private goods through the implementation of incremental budgeting and introduction of privatization policies; state sector makes health sector more open to market and encourages citizens and public institutions to get health services from private hospitals. Consequently, through the health services state sector supports capital accumulation in market sector.

### **5.5.3. Transfers**

Some of the budget resources, such as subsidies to market sector which are directly allocated to market sector as the transfers. Based on O'Connor (1973), excluding state sector and households, the rest of the economy categorized as market sector and it is divided into two sub-categories; large-scale capital and small and medium scale capital. As discussed in Chapter 4 education and health are classified under small and medium scale capital, but since the redistribution of power through the

expenditures on these social policy areas were analyzed in Section 5.5.1. Education and Section 5.5.2. Health, this section evaluates only transfers to the other parts of the market sector.

As a result of liberalization policies introduced during post 1980 period, transfers to market sector in general shows similar developments with health and education, stated above (Figure 27). During 1980-2003 period, excluding 1995 and 2001 which includes the effects of crisis, resources directed to market sector increased gradually both in USD terms and relative to GDP.



**Figure 27. Transfers to Market Sector**

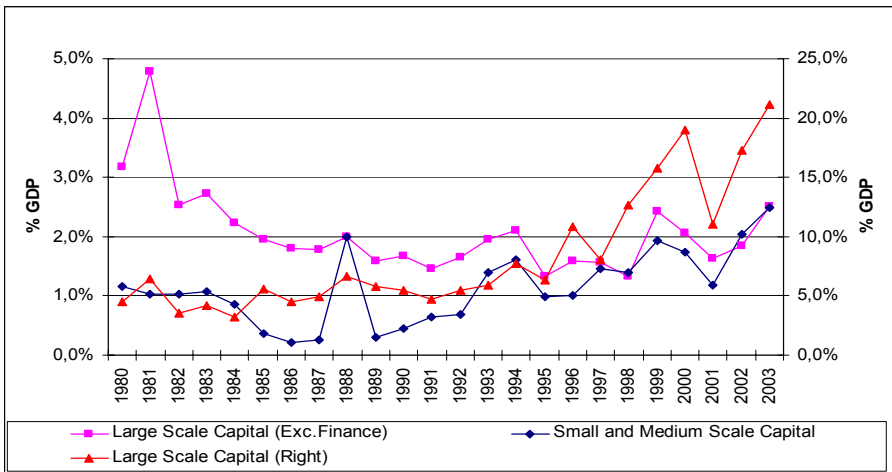
Figure 27 indicate that transfers to market sector increased in all office terms of governments during the whole period of study. The average of budget transfers relative to GDP was 5.3 percent during the military government and it increased to 6 percent by ANAP government. Starting from 1991, funds allocated from state budget to market sector started to increase constantly. This ratio reached up to 8.3 percent during DYP –SHP (CHP) coalition and rose to 9.5 percent in office time of RP-DYP government. This steady increase continued during ANAP-DSP and DSP-MHP-ANAP governments and the average of transfers to market sector over GDP ratio reached to 15.8 percent and 17.4 percent respectively. Finally, AKP government raised it to 23.7 percent in 2003 budget.

This strong trend in the increase to transfers market sector implies that interest groups representing capital has a strong influence on decision making mechanism during the budget cycle. Spengler (1950) calls these interest groups as “economic power bloc” which is considerably significant that is able through the exercise of political power to modify its favor either the external determinants of transactions involving its members or their capacity to maneuver advantageously within the framework provided by the internal determinants. Organized business, such as The Union of Chambers and Commodity Exchanges of Turkey (TOBB), Turkish Confederation of Employer Associations (TISK), Turkish Industrialists’ and Businessmen Association (TUSIAD), Independent Industrialists’ and Businessmen Association (MUSIAD), Young Businessmen Association of Turkey (TUGIAD) and sector organizations like Automotive Manufacturers Association (OSD) and Exporters Assembly of Turkey (TİM), is the most significant part of economic power blocs in Turkey.

Among these organizations, TUSIAD members produce 37.5 percent of Turkey’s value-added and all of the members take place in top 2000 establishments ([www.tusiad.org.tr](http://www.tusiad.org.tr)). It is known that among these groups, especially TOBB’s presidents have interest and strong relations in politics. Former TOBB presidents Medeni Berk (DP, 1959-1960), Necmettin Erbakan (MSP, 1974-1978; RP, 1996-1997) Mehmet Yazar (ANAP, 1990-1991), Ersin Faralyalı (DYP, 1991-1993) Yalım Erez (DYP, ANAP 1996-1999) and Ali Coşkun (AKP, 2002-2007) not only elected as a member of parliament but also assigned as the ministers in different governments. Moreover, Necmettin Erbakan also acted as the prime minister, and Turgut Özal who was the former president of MESS (Turkish Employers Association of Metal Industries) acted as the prime minister, as well as the president of Turkey. Evidence shows that representatives of organized business have direct interest in politics to strengthen their material positions. Through the use of political power, blocism strengthens material power of economic power blocs. Accession to political power has been accompanied by that of economic power and both forms of power increase the mobilization of bloc on a wider terrain and increase economic situation of bloc members (Spengler, 1950).

Transfers to market sector especially increased after 1994, and the main reason behind this development was increasing interest expenditures to

financial sector. Figure 28 shows that the amount of public resources allocated to financial sector increased significantly. In line with the Capital 500 list financial sector categorized under the large scale capital. Interest expenditures have been the main determinant for which part of the capital is more benefited from budget resources. In this regard, depending on the interest rate regime and the level of deficit financing, the amount of interest payments may change and the resources allocated to large scale capital, in reality to financial sector, may increase or decrease. In this regard, interest payments were at quite low levels since interest rates were under control until July 1980. There was a gentlemen's agreement among the biggest banks in 1980 and interest rates stood lower than the inflation until the third quarter of 1981. On the other hand as there were unexpectedly high real interest rates offered by some of the banks, Central Bank set limitations on the interest rates in January 2003 (Binay and Kunter 1998). As a result of the low interest rates, transfers to financial sector were relatively low during the period of military government and the average was 1.3 percent of GDP. Controlling of interest rates by Central Bank was removed in October 1988 and real interest rate was -2.48 percent in 1989, however it then went upwards dramatically; Baydur (2001) calculated real interest rates paid for domestic borrowing as 1.16 percent in 1990; 18.24 percent in 1993; 50.18 percent in 1994; and 70.2 in 1998. Transfers to financial sector, through borrowing and its outcomes will be discussed in detail in Section 5.6.2. .



**Figure 28. Rising of Financial Sector**

Leaving the financial sector aside, Figure 28 shows that there are two main trends for the transfers to market sector. First phase starts in 1981 and ends in 1998, during this period transfer to large scale capital other than the finance sector decreased from 4.8 percent of GDP to 1.3 percent while transfers to small and medium scale capital stayed almost constant and increased from 1.0 percent to 1.4 percent. As an outlier, in 1988 transfers to small and medium scale capital increased to 2.0 percent because of the construction investments as a part of South Eastern Project. Second phase is post 1998 period and transfers to market sector increased for all capital groups, however transfers to small and medium scale capital increased from 1.4 percent of GDP to 2.5 percent in 2003, while transfers to large scale capital was increasing from 1.3 to 2.5 percent, both were almost doubled.

As a result it is a fact that during the period of 1980-2003 the share of large scale capital and small and medium scale capital was equalized. It is to say that budget resources were employed to support market sector by increasing transfers, moreover formulate a shift from large scale capital to small and medium scale capital. Sector breakdown of transfers to large scale capital and small and medium scale capital is discussed in detail in the following.

Table 15 demonstrates that the biggest part of transfers to large scale capital goes to electricity, gas and water supply sector, which composes 27 percent of the total transfers during 1980-2003 period on average. Additionally, the amount of funds transferred to transport, storage and communication sector is also significant. The average of allocated funds to this sector was 22 percent of total transfers.

**Table 15. Breakdown of Large Scale Capital**

% Share in Total Transfers (Excl. Int. & Debt)							
		ELC	TSC	MAN	MIN	FIN	TOTAL
AP	1980	21%	20%	30%	2%	0%	73%
MILITARY	1981	23%	24%	34%	1%	0%	82%
MILITARY	1982	30%	34%	5%	2%	1%	72%
MILITARY	1983	30%	34%	5%	2%	1%	72%
MILITARY	1984	31%	32%	6%	2%	2%	73%
ANAP	1985	40%	30%	9%	2%	4%	85%
ANAP	1986	36%	33%	10%	2%	9%	90%
ANAP	1987	34%	30%	15%	2%	7%	88%
ANAP	1988	23%	13%	8%	1%	9%	55%
ANAP	1989	45%	27%	9%	0%	4%	85%
ANAP	1990	37%	25%	13%	2%	1%	79%
ANAP	1991	33%	24%	8%	2%	1%	69%
DYP - SHP	1992	36%	24%	7%	3%	1%	71%
DYP - SHP	1993	24%	16%	12%	2%	7%	62%
DYP - SHP	1994	22%	15%	17%	1%	0%	57%
DYP - SHP	1995	24%	18%	13%	1%	1%	58%
DYP - CHP	1996	25%	18%	17%	1%	1%	62%
RP - DYP	1997	22%	16%	13%	1%	1%	52%
ANAP - DSP	1998	22%	16%	11%	0%	1%	49%
ANAP - DSP	1999	15%	10%	30%	0%	0%	56%
DSP - MHP - ANAP	2000	20%	13%	21%	0%	0%	55%
DSP - MHP - ANAP	2001	26%	19%	12%	0%	1%	59%
DSP - MHP - ANAP	2002	20%	17%	11%	0%	1%	48%
AKP	2003	20%	15%	15%	1%	0%	50%

ELC: Electricity gas and water supply

TSC: Transport, storage and communication

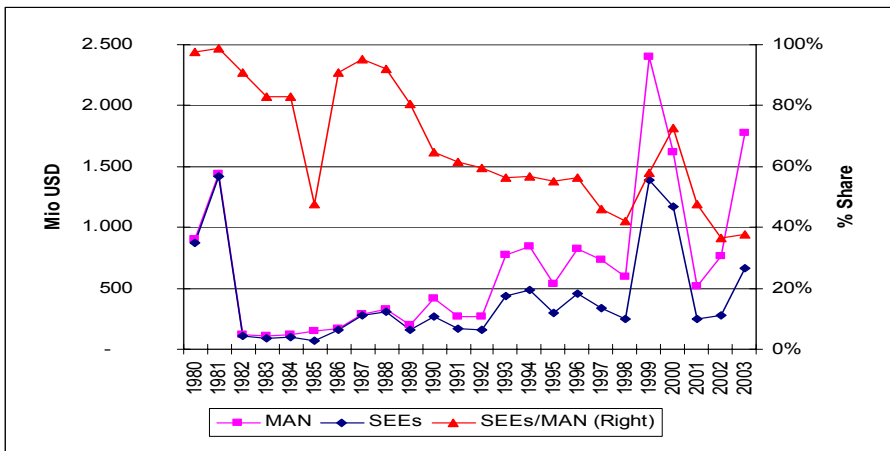
MAN: Manufacturing

MIN: Mining and quarrying

FIN: Finance and Insurance Services

Large scale capital includes state owned economic enterprises, as well as private sector companies. Almost all of the state economic enterprises operate in manufacturing sector and produce private goods. Because of the funds allocated to state economic enterprises, transfers to manufacturing sector shows significant fluctuation during 1980-2003. Figure 29 shows that until 1990, excluding 1985, funds transferred to manufacturing sector mainly allocated to state economic enterprises, which were acting as investing and producing agent of state in order to foster state's industrialization targets.

During early 1980s, due to the measures taken by the governments, state economic enterprise system generated net factor income (Boratav, Yeldan 2001). Consequently, transfers to state economic enterprises declined drastically. However, the declining share of state economic enterprises in transfers to manufacturing sector did not mean that public resources allocated to state economic enterprises kept under control until 2000 (Figure 29). Because as emphasized by Atiyas and others (1999) some parts of duty losses were not reported in budget statements and there was a serious lack of information in fiscal aggregates. Until the closure of EBFs, significant amount of public resources transferred to public institutions and state economic enterprises as well. Besides, declining share of state owned enterprises until 1990 implies that rest of the manufacturing sector was supported relatively much in that period. Due to the increasing tax rebates and investment incentives, the share of duty losses and capital transfers to state owned enterprises declined to less than 40 percent in 2002 and 2003. In 1980-2003 period, the maximum amount allocated to manufacturing sector in 1999 budget, and around USD 1.5 billion was for state economic enterprises and more than USD 900 million was programmed for investment incentives and tax rebates in order to subsidize directly private manufacturing companies.



**Figure 29. State in the Market Sector**

Therefore, around 63 percent of transfers to market sector were distributed to the three sectors of large scale capital. Adding up the transfers to the agricultural sector of medium and small scale capital, this ratio reaches

to 78 percent on average in 1980-2003 period. During the times of military governments and ANAP government the average of funds transferred to large scale capital was 77 percent. However, it declined to 62 percent in the period of DYP – SHP government. Moreover, RP-DYP government reduced this ratio to 52 percent. It stood almost constant, 53 percent, until 2003.

Table 16 shows the sectoral breakdown of transfers to small and medium scale capital. In the period of study, the most significant development which was not a coincidence was protecting of its strong position by agricultural sector and the rising of trade sector. Both sectors have strongly organized business groups, evaluated as the examples of economic blocs. Excluding few years, agriculture sector get the highest amount of funds during the period of 1980-2003. Spengler (1950) argues that strength of a bloc may be determined according to the size of membership and whether it is strategically distributed or not within the economy; and consciousness of kind and effectiveness of organization in every level. Agriculture sector covers all of the mentioned factors, and historically peasants and farmers get significant amount of subsidies from the budget resources. On the other hand, with the incentives for tourism and foreign trade were widely employed starting from the mid 1980s and strong support of business organizations; emergence of trade became significant as seen from the Table 16.

**Table 16. Breakdown of Medium and Small Scale Capital**

		% Share in Total Transfers (Excl. Int. & Debt)								
		AGR	CON	EDU	HEA	HOT	RES	TRD	OTH	SUM
AP	1980	14%	4%	0%	2%	1%	0%	2%	4%	27%
MILITARY	1981	10%	3%	0%	2%	1%	0%	1%	0%	18%
MILITARY	1982	13%	9%	0%	2%	0%	0%	4%	0%	28%
MILITARY	1983	15%	7%	0%	2%	0%	0%	3%	1%	28%
MILITARY	1984	16%	7%	0%	2%	0%	0%	2%	1%	27%
ANAP	1985	6%	3%	0%	2%	0%	0%	3%	1%	15%
ANAP	1986	3%	2%	0%	2%	0%	0%	2%	0%	10%
ANAP	1987	4%	1%	0%	4%	0%	0%	2%	0%	12%
ANAP	1988	3%	39%	1%	1%	0%	0%	1%	0%	45%
ANAP	1989	5%	2%	1%	3%	0%	0%	5%	0%	15%
ANAP	1990	6%	2%	0%	4%	1%	0%	8%	0%	21%
ANAP	1991	17%	2%	1%	3%	1%	0%	7%	0%	31%
DYP - SHP	1992	15%	2%	0%	4%	1%	0%	6%	0%	29%
DYP - SHP	1993	21%	9%	0%	2%	1%	0%	5%	0%	38%
DYP - SHP	1994	25%	7%	0%	2%	0%	0%	7%	0%	43%
DYP - SHP	1995	25%	5%	1%	3%	0%	0%	8%	0%	42%
DYP - CHP	1996	13%	6%	1%	4%	0%	0%	13%	0%	38%
RP - DYP	1997	23%	5%	0%	4%	0%	0%	15%	0%	48%
ANAP - DSP	1998	25%	6%	1%	4%	0%	0%	15%	1%	51%
ANAP - DSP	1999	22%	3%	1%	2%	0%	0%	15%	0%	44%
DSP - MHP - ANAP	2000	19%	5%	1%	3%	0%	0%	16%	1%	45%
DSP - MHP - ANAP	2001	17%	1%	1%	4%	0%	0%	18%	0%	41%
DSP - MHP - ANAP	2002	25%	1%	1%	3%	0%	0%	20%	2%	52%
AKP	2003	18%	1%	1%	4%	0%	0%	24%	1%	50%

AGR: Agriculture, forestry and fishery  
 CON: Construction  
 EDU: Education  
 RES: Real estate, renting  
 TRD: Wholesale and retail trade  
 HEA: Health and Social Works  
 HOT: Hotels and restaurants  
 OTH: Other

Transfers to agrarian sector deserve to analyze in details since it covers most of the transfers to small and medium scale capital. During the period of ANAP governments the lowest amount of funds, which was

around 6 percent of total transfers to markets sector was directed to agrarian sector (Table 16). Between 1985-1990, the scope of agricultural subsidies reduced to a significant extent and export oriented agricultural supports were introduced (Guler, 1996). However, Yıldırım Akbulut cabinet tripled the allocations in 1991 by increasing the number of supported agricultural products to 24 and widening the compensation of revenue losses due to the limitations for field areas for tobacco and hazelnut (Yükseler, 1999). The major change in subsidizing agriculture sector occurred starting from 1991 and international market prices were taken as the reference for agricultural supports. During DYP-SHP government; transfers to agriculture sector reached to 20 percent of total transfers to market sector.

**Table 17. Sectoral Breakdown of GDP and Labor Force (%Share)**

	Gross Domestic Product			Labor Force		
	1982	1992	2002	1982	1992	2002
Agriculture	23,5	19,8	14,0	53,7	43,7	33,6
Industry	28,8	31,7	30,6	19,3	20,2	18,6
Services	47,7	48,5	55,4	27,0	36,1	47,8

Source: TurkStat

Although transfers from budget increased in this period, the share of agriculture in gross domestic product decreased significantly and employment in agrarian sector declined. Later, the share of agricultural transfers in total transfers to market sector reached around 23 percent, which was indicating the highest support among different sectors, both in RP-DYP government's and ANAP-DSP government's budgets. The average of transfers was 21 percent in DSP-MHP-ANAP government's term and declined to 18 percent in 2003 budget.

As a result, during the whole period of analysis, transfers to market sector increased steadily, however after 1994 it the increased more rapidly, because of the interest payments to finance sector. Besides, in the power struggle among social groups, it is clear that small and medium scale capital strengthened its position against large scale capital. Due to the power of being organized business agriculture and trade get the highest share among others within the transfers to small and medium scale capital. On the other hand, electricity, gas and water supply had the highest share in transfers to large scale capital, while manufacturing sector and transport, storage and

communication sector were the other organized sectors which had higher shares from the total.

## **5.6. Financing of the Evolution through Taxation and Borrowing**

Budgets have three components; expenditures, revenues and borrowing. Expenditures are financed by the revenues and the difference is shown as budget balance. Therefore, revenues and expenditures are above the line items and in case of a deficit in budget balance it should be funded by net borrowing. Net borrowing amount is calculated by deducting principal repayments from the new borrowing. Financing items are recorded below the line, and do not treated as revenue or expenditure. Since principal payments are only the repayments of a fund which was provided under a contract for a period of time and cannot be regarded as expenditures, states do not need any appropriation for principal payments.

On the other side, taxes have different characteristics. First, they do not have maturity and secondly, governments take the power from parliaments to collect taxes from the citizens by executing power.

Even both of them are used for financing of the state expenditures; taxation and borrowing have different influences from the redistribution point of view. The preference of financing state expenditures through taxation creates a burden on citizens while financing through borrowing creates burden on the next generations. Therefore, at least from the financing cost of the public spending perspective, public finance policies and instruments may have different outcomes. Besides, the beneficiaries of these two financing items are also different from each other. Consequently, redistributive effects of taxation and borrowing will be separately explored.

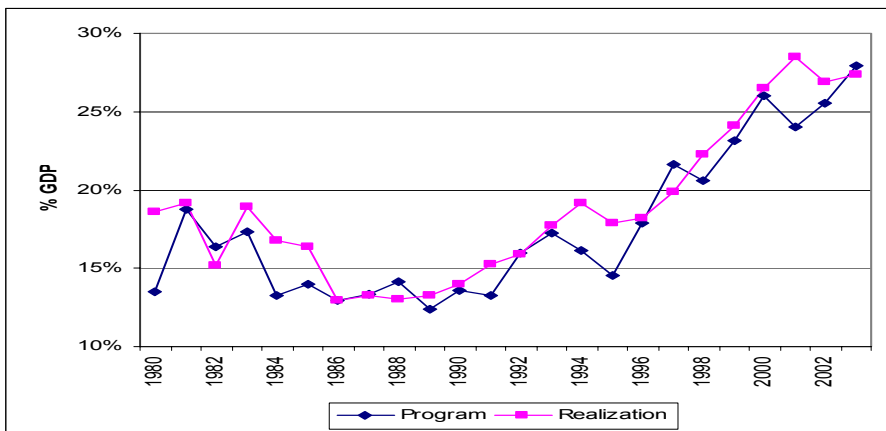
### **5.6.1. Budget Revenues**

Taxation has two primary redistributive functions. First, in accordance with some collective decision procedures, it determines how much of a society's resources will come under the control of government for expenditures and how much of it will be left in the discretionary control of private individuals, as their personal property. Second, redistribution function which taxation plays an important role is determining how the social product is shared among different individuals, both in the form of

private property and in the form of publicly provided benefits. (Murphy and Nagel, 2001)

As discussed in the previous chapters, one of the determinants on the size of the state is the public goods which are provided by public agencies. Accordingly, equitable distribution of the burden among social groups becomes a question. The role of direct taxes, as distributive mechanism is directly related with the status of taxpayer in the percentile rank order in the earnings distribution (Layard, 1980). Individuals give more attention to their relative position and their utilities, affected by per capita income/consumption (Boskin and Sheshinsky, 1978). On the other hand, indirect taxes have superiority to direct taxes in terms of practicality. However, depending on the milderness of income distribution, the associated welfare losses for citizens may be less for direct taxes. In other words, through the direct taxes there are welfare gains from public to the government. Depending on the government’s preference on the income distribution, welfare losses of the public associated with marginal increase in government revenues through indirect taxes may be reduced, in case indirect taxes are restructured in a way that tax incidence is higher on higher income groups (Murty, 1989).

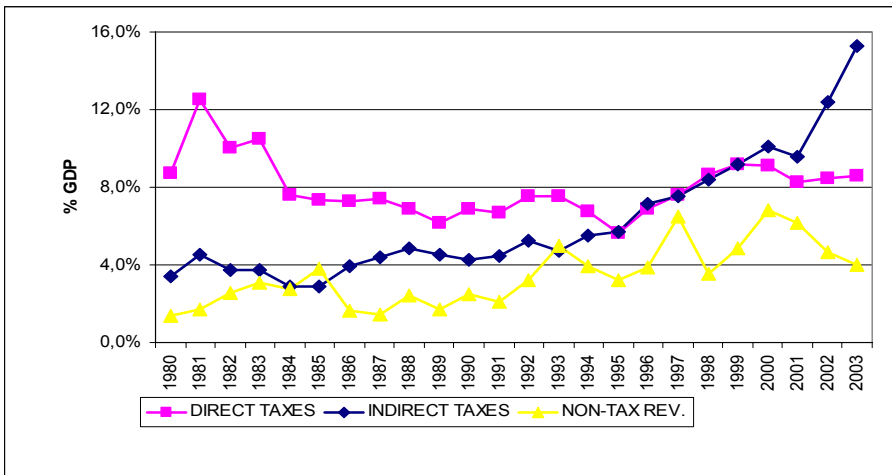
On average, 80 percent of the budget revenues were intended to be generated through taxation for the period of 1980-2003. Figure 30 shows that in general realizations were in line with the program. Besides, in 1980, 1984, 1994, 1995 and 2001 realizations exceeded the programmed amount around 3 to 5 percent of GDP.



**Figure 30. Budget Revenues**

In Turkey, the major components of government revenues are Income tax and Value-Added tax (VAT). Income tax is mainly a progressive tax and it is expected to be pro-poor. On the other hand, for most of the goods and services, consumers are obliged pay VAT almost a standard rate and it results in a pro-rich redistribution. Pinar (2004) states that according to the tax incidence analysis carried over for 1994 and 2002, income tax results in pro-lower incomes redistribution. Therefore, the poorest get less than the middle income groups. This is mainly because low income groups were either unemployed or working in temporary jobs. According to him, unrecorded economic activities may be another reason.

The progressivity of the income tax would work only if unregistered activities are in negligible amounts. The evidence shows that there are considerable amount of unregistered employees in middle and high income groups. VAT, as an indirect tax, seems to be neutral across income groups, even works pro-rich in small amounts in some cases. If the main aim is an impartial public finance, then the aim is accomplished. However, given initial income distribution and increasing tendency of the indirect taxes, the sustainability of the existing picture is questionable (Pinar, 2004).



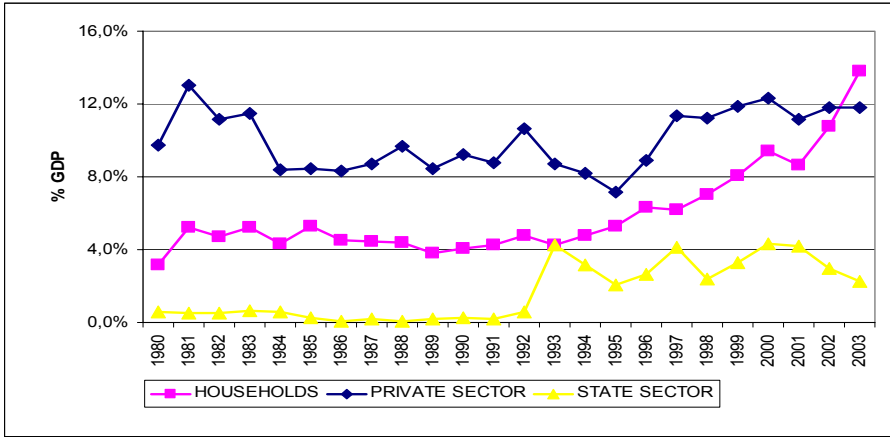
**Figure 31. Type of Revenues**

Figure 31 shows that the highest amount of direct taxes relative to GDP was programmed by military government. However, with the introduction of VAT by ANAP government in 1984, the share of direct taxes over GDP declined from 10.5 percent to 7.6 percent, which indicates an

approximately 27 percent decrease. Besides, the share of indirect taxes relative to total taxes increased from 26.2 percent in 1983 to 27.4 percent in 1984. Moreover, it increased steadily and reached to 42.3 percent in 1989. The average of indirect taxes over total tax collection was 37.5 percent during the ANAP governments. Consequently, it is clear that introduction of VAT was a breaking point from tax collection policy decision perspective. DYP-SHP coalition interiorized the same policy and increased the share of indirect taxes to the further levels, 45.1 percent on average, during their term. Besides, after 1994 economic crisis, the share of indirect taxes reached to 50.1 percent in 1995 and 50.9 percent in 1996. Additionally, 1996 was the first year when indirect taxes exceeded the direct taxes.

On 26 November 1999, an earthquake tax package and withholding tax on government securities were introduced in order to cover the losses of the earthquakes and support the stabilization program. The contribution of the savings generated from the one-off measures in the earthquake package was 0.75 per cent in 2000. The withholding tax, which was introduced in order to reduce the windfall gains from the decline in inflation, generated savings for 1.3 per cent of GNP in 2000. In December, additional revenue raising measures such as 2 per cent increase in VAT rate and increases in tax liabilities on interest earnings were introduced

The share of indirect taxes increased continuously in the budgets prepared by all governments. None of the coalition governments intended to redistribute social cost of public expenditures among the tax payers, and they adopted ANAP's policy preference regarding the collection of revenues through indirect taxes. Another breaking point was the introduction of special consumption tax. In 2002, DSP-MHP-ANAP government introduced special consumption tax in order to create simplicity in the taxation by removal of 16 different taxes and to make necessary arrangements in taxation regime for the convergence with EU. Different from VAT, special consumption tax is executed only once for the listed goods which are petroleum and natural gas (List 1), motor vehicles (List 2), beverages, tobacco and cola drinks (List 3) durable goods and others (List 4). Introduction of special consumption tax exploded the share of indirect taxes more than 15 percent relative to GDP in 2003 budget, and the share of indirect taxes in total tax collection increased to 64 percent.



**Figure 32. Breakdown among the Social Groups**

Figure 32 shows the breakdown of the burden of public expenditures. The most significant development is transferring social costs of publicly provided services from private sector to households. Taxes collected from private sector declined from 13 percent relative to GDP in 1981 to 8.4 percent in 1984. The share of private sector was 8.7 percent, showing a stable structure during ANAP governments and DYP-SHP coalition, in 1984-1996 period. However, because of the expected non-tax revenues, it increased to an upper level, 11.4 percent of GDP, starting from RP-DYP coalition. The average of revenues collected from private sector was 11.6 percent relative to GDP starting from 1997 till 2003.

In parallel with the enactment of VAT law, in the last two decades, indirect taxes paid by the households increased almost six times, from 2.3 percent of GDP in 1983 to 12 percent in 2003. Especially with the introduction of special consumption tax, in 2003, households bore the highest share of the burden of public expenditures. Total taxes paid by the households increased from 5.2 percent of GDP in 1983 to 13.8 percent in 2003.

State sector did not share the burden of public expenditures to a significant extent until 1993. However, as a result of a regulation introduced with budget law, 63 of EBFs switched into the state budget (Kızıldağ, 2005) and revenues of these funds recorded as budget income starting from 1993. In 2001, excluding five of them, rest of the EBFs was closed and their revenues were transferred into budget. Therefore, non-tax revenues started to

decline in the following years. The average of non-tax revenues provided by state sector was 3.2 percent during 1993-2003 period.

According to Pinar (2004) current regime for direct taxes seems to correct income distribution in favor of lower income groups. However, this correction mainly reflected to middle and lower income groups more than the poorer since it is mainly consist of unemployed or temporarily employed citizens. On the other hand, unregistered economic activities create a problem about measuring the influences of direct taxes because proportional structure of income tax could only be realized in line with expectations if citizens declare their whole incomes. Pinar (2004) states that indirect taxes like VAT, have no influence on the income distribution in general, but they relatively have very minor adverse effects on the lower income groups. Consequently, he asserts that taxes are collected in order to finance public expenditures and there is not any outcome to correct income distribution.

### **5.6.2. Deficit Financing**

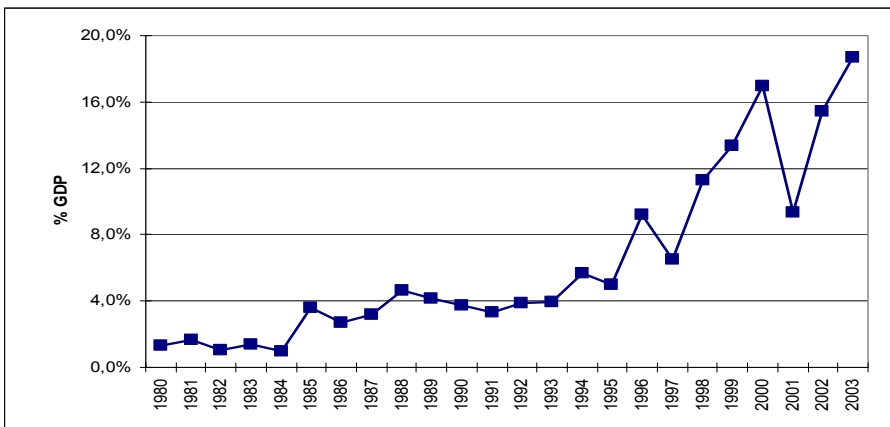
The most critical constraint on budget is balance requirement which refers to equalization of allocations with revenues, but there is often a discrepancy between expenditures and taxes that results in an unbalanced budget which creates a distortion in net benefits. Therefore, submitting a deficit budget instead of a balanced one to the parliament means taking a decision which implies financing the increased spending and social welfare costs by avoiding to create immediate burden on social groups.

Deficit budgets are usual for most of the countries because politicians may avoid to use the power of taxation while creating a policy space and covering excess spending. As stated by Lizzeri (1999) debt allows politicians a finer control over the promises they made to the groups of voters for appealing them. It is not guaranteed to the group that is in power today will be in power tomorrow and debt gives an advantage for this temporary power by providing more control over resources. On the other hand, debt is a tie for the hands of future governments which have different preferences from the current government (Persson and Svenson 1989, Alesina and Tabellini 1990 and Tabellini and Alessina 1990).

Until 1986 budget, interest and principal payments of debt were classified under spending items, while borrowing was treated as income. As discussed before, due to the changing budget classification, debt repayments categorized as below the line items, and interest payments were classified as

spending, in line with the corporate accounting. However, for the whole period of the analysis, debt repayments were categorized as transfers to financial sector, and the figure shows that excluding early 1980s, transfers for debt repayments did not decline below 4 percent of GDP.

On July 25, 1979 Turkey and OECD countries agreed on the restructuring of USD 1.2 billion guaranteed debt and on July 23, 1980 Turkey signed another debt restructuring agreement in order to postpone USD 3 billion debt which would be redeemed in 1980, 1981 and 1982 (Açba, 1989). Thanks to debt restructuring operations, budget allocations for debt repayments were in relatively low levels. However, due to the completion of grace period of debt restructuring, debt repayments to financial sector reached to 3.5 percent in 1985, while it was 0.9 percent in 1984. During these restructuring negotiations non-guaranteed commercial loans had to be undertaken by government. As stated by Weber (1978) the creditors impose their conditions of credit, influencing their economic behavior for the sake of the liquidity of their own resources. On the other side, the debtors accept the conditions imposed by the creditors, and in case they really need credit, guarantee submission by supplying collateral without their own interest and debt restructuring negotiations create a good basis for creditors to maneuver in line with the “class situation”. The creditor-debtor relations become the basis of “class situations” where a “credit market” with rates of interest increasing according to the extent of scarcity and factual monopolization of lending in the hands of plutocracy could develop and “class struggles” begin (Weber, 1978).



**Figure 33. Transfers to Financial Sector**

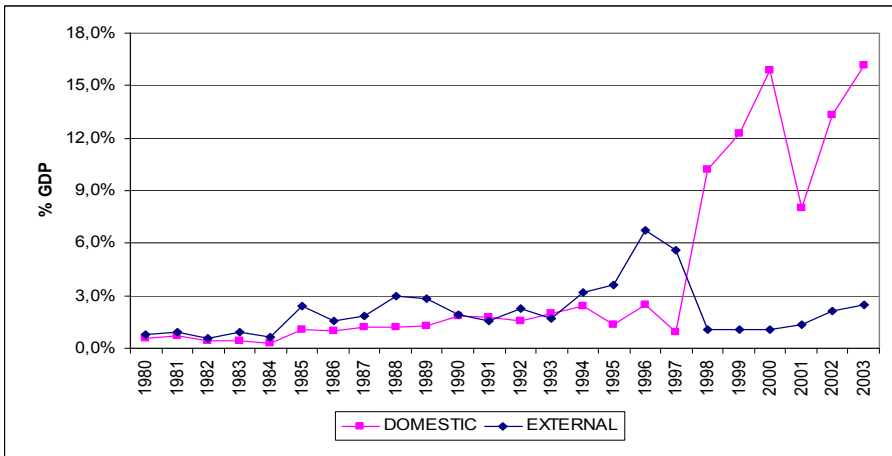
In order to meet financing requirement until mid-80s, domestic borrowing was carried over within the limits and the principles determined by the budget law. On May 30, 1985 Treasury started to borrow through the regular auctions in domestic market. Due to the lack of domestic bond market, instead of local borrowing, budget financing was done through external borrowing and short term advances from the Central Bank. However, short term advances were not fully repaid on the due date and it became accumulate. Outstanding amount of short term advances increased to 2.8 billion TL in 1990 while it was 195 million TL in 1980 (Bedir, 2007). Besides, starting from 1989 capital account liberalization increasingly made economy dependent on the arbitrage-seeking (hot money) inflows to finance capital account deficits (Selçuk, 1997, Ertuğrul and Selçuk, 2000, Boratav and Yeldan, 2001)

Accumulating debts to Central Bank caused monetization of budget deficits and interest rates increased. On the other hand, Gulf War because of the invasion of Kuwait by Iraq caused shrinkage in foreign currency inflows and early elections in 1991 created a pressure on budget deficit due to the expansionary fiscal policies. Therefore, domestic debt increased rapidly to 799 million TL in 1994, from 57 million TL in 1990 ([www.hazine.gov.tr](http://www.hazine.gov.tr)). Accordingly, as shown in the Figure 33 debt service to financial sector increased from 3.8 percent relative to GDP in 1993 to 17 percent in 2000.

From the external borrowing point of view, it is a fact that, starting from 1983 syndications and commercial credits also obtained frequently, while bilateral credits were the main borrowing facility until that time. Since 1990s, bond issues in the international capital markets has become the main instrument in external borrowing, however increasing share of commercial credits and bonds caused a deterioration in the maturity structure of external debt (Bedir, 2007). External debt burden doubled during 1984-1988 period and its increase continued during 1990s, excluding 1995. Using the IMF financing in 1999, domestic debt switched to external debt, however because of the 2000 and 2001 crisis a significant amount of resources allocated to Turkey by IMF and external debt stock increased drastically.

The most significant outcome of the fiscal policies implemented during 1990s was the dominance of the public sector in the financial markets. Because of the reduction in credit rating, Turkey's access to external financing became very limited and after 1994 crisis Turkey's

external debt payments started to decline. Financing need was met from the local markets and Turkey became a net payer in external debt. However, in order to meet financing requirement from the domestic market, almost all of the private savings were borrowed by public sector and it created a crowding out effect. Increasing domestic debt stock with a very short maturity structure found its reflection in the state budget starting from 1997, since financing cost of domestic borrowing increased to a great extent. The dominating development of 1990s was the increasing amount of "hot money" flows.



**Figure 34. Breakdown of Financing Cost**

Capital inflows from non-residents gradually became autonomous because of the high level of current deficits, liberalized foreign exchange regime, high real rate of return on government borrowing instruments and other financial assets in comparison to the rate of depreciation of the domestic currency against the foreign currencies. This autonomous structure stimulated further foreign inflows (Boratav and Yeldan, 2001). Consequently, even Turkey became a net re-payer in external debt, through the domestic borrowing higher amount of interest payments transferred to non-resident financial sector (Figure 34).

In 2001 budget, interest expenditures declined because of the economic stability program executed with IMF. However, due to the crisis that occurred in November 2000 and February 2001, overnight interest rates exceeded more than 1000 percent in the money markets and a number of

banks were either closed or captured. Capital injection to state banks because of duty losses and on-lent credits issued to Saving Deposits Insurance Funds for undertaken bank deposits doubled the outstanding debt stock relative to GDP in 2002.

Bedir (2007) mentions two effects of domestic borrowing on the income distribution as direct and indirect. Direct transfer covers the transfers to higher income groups through the principal and interest payments since most of the government securities are supposed to be hold by banks and higher income groups. Accordingly, domestic borrowing has some influences on deteriorating income distribution against middle and lower income groups, because taxes are collected from all of the citizens. Indirect effects of domestic borrowing may be observed through the economic growth rate, since it is supposed that borrowing means use of future tax collection in the current period and this will cause a decrease in the growth performance in the long run.

To summarize, the liberalization of the capital account in Turkey in 1989 and increasing budget deficits has resulted in a vicious financial cycle. During 1990s government debt increased drastically. Due to the increasing deficits borrowing conditions became unfavorable and financial liberalization caused an increase in current account deficits. Decreasing funding facilities from abroad forced to increase real return on domestic borrowing and arbitrage-seeking short-term capital ("hot money") of non-resident financial sector became one of the main financing resources. As a result, deficit financing became more expensive and via the interest expenditures, budget resources allocated to finance sector first exceeded 10 percent of GDP and then close to 20 percent. In this regard, interest payments not only causes a wealth transfer from citizens to non-resident finance sector, but also deteriorates income distribution against lower income groups and creates an improvement in favor of middle and upper income groups within the society, as indicated by Pınar (2004). Besides, through borrowing, funds are transferred from future and this causes an increase in the wealth of current generations (Ünlükaplan, 2006).

## CHAPTER 6

### CONCLUSION

The main question which was discussed in this study is how state budget is employed as a mean of redistribution of power and status among different social groups. The influences of budget on income distribution have been explored in public finance theory, mainly through designing of tax and transfer policies. The measures on these policies may not be immediately concerned with distributional objectives, but they may have distributional repercussions. However, any study on distributive influences of the state budget on the social groups can be determined in sociology theory; moreover public finance policy and its tools have rarely been in the interest of sociological studies, but relatively more in the political science. Consequently, literature is very limited on the objective question of this study, and the discussions intersect with the theory of sociology and public finance in addition to political science. Albeit the exploration of the objective question requires sociological reading of state budget, there are significant limitations in the budget to get sociologically meaningful outcomes. The main obstacle is the budget classification. First, the classical presentation of consolidated budget data was organized according to the institutions and programs. Therefore, thousands of expenditure items were needed to be reclassified in order to produce a data set which makes sociological analysis possible. Although it was reclassified, the new data set provided a limited space, since by using the names of the programs it could not be possible to generate the allocations for all social groups defined in sociological theory. Accordingly, some broader terms had to be employed, such as usage of administration instead of bureaucracy. Besides, while discussing the developments in power balances appropriations allocated for religion and education can be determined as an example of ideological state apparatuses. Second, change in budget classification starting from 2004, do not let us to lengthen the analysis till recent periods and as a result the most recent data used in study could be 2003.

An OECD study carried out in 2005 created a base for determination of the methodology. It inspired this study by two ways: first, the amount of budget expenditures allocated to public and private goods determined and its

determination let us to discuss about the will behind the decision on selection of private goods whether it will be provided by public sector and to what extent by setting the allocation amount. Secondly, the use of OECD classification allowed me to make international comparisons according to the level of public and private goods and their subsectors. State budget not only analyzed from the public and private goods perspective. Expenditures and revenues were also reclassified in order to determine which social sector intended to be supported through the state budget. In addition to revenues and expenditures, as the third item of a trivet, borrowing and its influences was also discussed. Therefore, this study investigates the core question via determining the trends, which indicates a shift from public goods to private goods, and mechanisms for transferring resources from state sector to market sector or create a space for development of market sector.

As indicated by Poulantzas (1975) and Jessop (1990), because of its autonomous position, the state has a distinction to determine the power balance by setting the rules which are bindery for the members of the society and redistribute economic and social sources by acting like an agent. In this regard, state not only redistributes power through the budget mechanism, but also intervenes in the form of regulations, orders, injunctions and contractual prohibitions as underlined by Offe (1996) and Jessop (1990). Marxist theory argued that state is an instrument to serve for the maintenance of capital accumulation and to save capitalist economy by acting as an apparatus for exploitation of powerless (Marx, 2000). Therefore, actions of the state may have influences on the class struggle which goes beyond the political or technical decisions taken for the accomplishment of state activities. As a further step, it was disputed that power elite or ruling class that consists of capitalists and military occupied some pivotal positions in the state and, through the centralized decision making processes, had power to realize their own purposes (Mills 1956, Miliband 1987). However, it is not always necessary that the members of ruling class need to occupy elite positions since the infrastructure is the main determinant and state has a relative autonomy from ruling class (Poulantzas, 1975). Later, due to the increasing democratization, it is emphasized that state is institutionally separate from the economy and the politicians, as the members of different classes, cannot direct state towards their hegemonic targets. It is likely to say that decisions are still designed to ensure the long term survival of capitalist system and there is a strong pressure to reduce the share of the state held in the

economy. Class struggle analysis is evaluated too partial by a significant number of social scientist such as Weber, Parsons, Tocqueville, Dahl and Schumpeter. It is argued that under well performing democratic regimes classes and status groups influence each other (Weber, 1978) and budget cycle involves the attempts of fiscal interest groups to push decision makers to behave in line with their interests such as to secure state's existence in the economy at minimum level in the long run (Dahl, 1958). Within this context, politics is the main area of struggle that includes voters, politicians, bureaucrats, capitalists and others (Hunter, 1953). According to the pluralist approach, it is not possible to mention a ruling class and, as an honest broker, state takes all the conflicting demands and reconciles them through political parties, trade unions, associations. Therefore, political power could lead economic and social power, while it is same for social power against economic and political power. Consequently, there is an interactive relationship between the organization and the class, in other words between state and the society.

On the other hand, in last two decades, rising of interest groups was not the only critical development in power relations between state and society. Deregulation and liberalization first strengthened the transnational structure of the markets, and then increased globalization (Giddens 1990, Sklair 2001, Jessop 2002). This development radically changed the power balance among the parties, because until globalization, states were organized in national level where society was organized in local levels and markets were organized local to national level (Riaian, 2000). However, under the new conditions, markets became transnational while others remained same. States became open for global influences and tried to control the issues which are across the state boundaries (Skocpol 1985, Jessop 2002).

In addition to the development of welfare state, responsibilities of state increased because the globalization required a growth in the size of the budget, contrary to the liberalization policies which require a smaller state and a smaller budget. In most cases, the size of the state shows its reflections in the size of budget. The size of the budget gives crucial information by indicating its redistributive capacity. However, neo-liberal pressures of interest groups and increasing competition in global markets always keep efficient use of public resources on the agenda. Considering that contemporary public finance theory covers both expenditures and revenues

and states that budget is a blueprint for the authoritative allocation of resources (Pollack 1999), budget is evaluated as a series of separated policy decisions not simply as a document that includes the annual economic and fiscal targets. In this respect, the size and structure of budget is evaluated as a function of the ideology of state (Swedberg 2003, Andersen 2007). Hence, a capitalist state is supposed to impose a relatively small budget comparing to a socialist government. In addition to its redistributive power, budget has a symbolic meaning between state and the society in modern democratic regimes. Budget is a contract between the state and the society for the use of economic and social resources. Besides, it is a commitment of government to meet the needs of society and gives authority to collect tax and to borrow on behalf of the society.

Transformation of state structure from Keynesian Welfare National State to Schumpeterian Competition State (Jessop 2002) widened power struggle from local to global basis. In the budget process, power struggle has been traditionally occurred between politics, representing the taxpayers, and the bureaucracy, representing the state or the status-quo. However, within the current conditions international lobby groups, multilateral institutions, international organizations and agreements involved in the decision making mechanisms (Ayman Guler 1996, 1997, Güzelsarı 2007, Oğuz 2008)

Within the traditional power struggle, politicians have different incentives and horizon in comparison with bureaucrats; they have allegiances with specific geographic constituencies and social groups. But bureaucracy wants to increase the size of budget in order to access a more powerful situation. Politicians may not be knowledgeable enough about every spending item and as a necessity they delegate their authority to bureaucracy. On the other hand, in this power struggle bureaucracy fights to gain its own means and prefers a poorly informed and powerless parliament (Weber, 1978). Sophistication of the rules and procedures behind the use of budgetary power increasingly shifts authority from politicians to bureaucracy (Niskanen 1973, Buchanan and Tullock 1962, Hillman 2003). Budget officials collect budget requests, analyze, cut and submit a proposal to the legislative body. This process is dominated with the consideration of expenditure projections of continuing programs and policies. As a result, politicians generally finds an almost completed document on the table and their consideration can only be on the use of public resources, rather than the

objectives of the outputs of expenditures. Similarly, parliamentary influence on the allocation of resources remains formal and government's budget proposal is accepted almost without an amendment because of the inadequacy of information. It also results in principal-agent problem. In this stage, only the knowledge of fiscal interest groups which have partial attention on different stages of budget preparation and execution may challenge the expert knowledge of bureaucracy while struggling with politicians (Weber 1978). Interest groups want more influence over budget priorities and allocation. However, generally the influence of interest groups is not directed to the budget officials and put pressure on spending ministries to affect the priorities among the programs.

From the stakeholders' point of view, the comprehensiveness of budget is important, because it not only indicates a stronger capacity of government for fiscal operations, but also shows redistributive power of budget. The existence of non-budgetary operations such as extra-budgetary funds, indexation of spending, revenue earmarking and contingent liabilities affect the capacity of politicians and officials for future budget allocations and take precedence over future decisions (Von Hagen 2002). The non-budgetary operations results in a dispersed public financial management system and these transactions make difficult to monitor fiscal operations and may cause inefficient use of resources. On the other hand, in case of a lack of information on the different dimensions of state's fiscal activities, it will not be possible to determine the size of state's intervention in the distribution of social products. Nevertheless, state's fiscal activities may create a market for special relevance to some interest groups. In this respect, minimizing of state in some sectors which are known as a part of state's core activities like education and health may have positive influences on the capital. Therefore, the provision of goods and services either by state sector or the market sector becomes a critical decision which is directly influenced by the ideological structure of state. Because public goods may be supplied by the market sector, while private goods may be supplied by the public sector. In a socialist regime, all goods are considered as public goods and state is directly based on redistribution. In a capitalist regime, state's activities supposed to be limited with its core duties. Mechanisms like "public private partnership" are developed in order to finance public goods by user prices, rather than the taxation. Public private partnership models share the burden of investment cost with private sector and encouraging them to operate in

new markets which born because of the withdrawal of state in this economic or social areas. Therefore, it is not argued that the state budget can alone explain the political outcomes of state's economic activities through direct and indirect transfers to some sectors and interest groups, since there are the non-budgetary operations. Besides, there are supplementary regulations not only on the determination of public and private goods, but also on the determination of state's economic and fiscal activities (Offe, 1996). However, regulations and non-budgetary transactions do not change the fact that, as the constitutional documents, budgets are the most significant documents that covers the redistributive functions of the state.

In this respect, based on the increasing size and comprehensiveness, the first major conclusion of this study is that state budget has a strong influence on redistributive politics in Turkey. Reclassified budget data for the period of 1980-2003 presents that budget has been employed for carrying out the redistributive purposes of state on the economic and social resources, since the size of the state budget exceeded 40 percent of GDP in 2003 and was not less than 30 percent since 1999. Although, as a reaction to centralist budget system, politicians introduced a number of non-budgetary spending mechanisms such as extra-budgetary funds, earmarked budget revenues, and revolving funds in order to protect priority expenditures from budget cuts; budget's redistributive power increased to the highest level ever in 2003. However, there is no evidence to argue that the reason behind the growing size of budget and increasing comprehensiveness after late 1990 was the rising of welfare expenditures, increasing living standards and shifting from agrarian to industrial society or having a more open economy, similar to welfare states as underlined by a number of social scientist (Downs 1969, Else 1976a, Rodrik 1996b, Borchering, Ferris and Garzoni 2001, Acemoğlu 2005, Garrett and Rhine 2006, Andersen 2007). The size of the budget grew mainly because of rising interest payments and abolishment of significant number of non-budgetary transactions, such as closure of extra-budgetary funds, and introduction of structural reforms in post 2001 crisis period, as a result of increasing local and global pressure. Therefore, it is possible to argue that supranational and sub-national regulatory bodies strongly influenced the regulatory and redistributive power of state and share some of its authority, in parallel to Jessop's (2002) arguments. Neo-liberal pressures of interest groups, including international organizations, forced state to increase transparency and widen the scope of state budget. However; direct

outcome of this development was not the increasing authority of politicians and budget officials due to the limited space in the budget for discretionary decisions. One of the most important reasons of losing discretionary capability is the noteworthy allocations to personnel expenditures and finance sector due to the interest payments which were inherited from previous generations.

Another conclusion derived by this study is that starting from post crisis period after 2000, there has been a shift from the domination of budget elites in decision making to a pluralist understanding. It is a fact that General Accounting Law was not clearly defining the roles and responsibilities. As a result, MoF was implementing a rigid, centralist approach in budget cycle through its central departments and budget offices within the line agencies that are directly reporting to MoF. Consequently, all of the authorities regarding the fiscal planning, decision taking, executing, ex-ante control and ex-post auditing were collected under the jurisdiction of MoF's bureaucracy for decades.

However, figures indicate that it is not possible to argue that by occupying elite positions, the ruling class, which consists of major corporations, the military and the government, employs state apparatus to realize their own purposes through a centralized decision making power as argued by Miliband (1987). Nevertheless it is a fact that organized business such as The Union of Chambers and Commodity Exchanges of Turkey (TOBB) has a strong interest in occupying critical elite positions through politics. Especially the presidents of TOBB developed strong relations with politics and some of the former TOBB presidents Medeni Berk (DP, 1959-1960), Necmettin Erbakan (MSP, 1974-1978; RP, 1996-1997) Mehmet Yazar (ANAP, 1990-1991), Ersin Faralyalı (DYP, 1991-1993) Yalım Erez (DYP, ANAP 1996-1999) and Ali Coşkun (AKP, 2002-2007) were not only elected as the members of Parliament but also assigned as the ministers in different governments. Moreover, Necmettin Erbakan took the Prime Minister's office in 1996, and Turgut Özal, who was the former president of MESS (Turkish Employers Association of Metal Industries) acted as the Undersecretary of Prime Minister, Deputy Prime Minister, Prime Minister and the President for more than 10 years in Turkey. On the other hand, this is not the case for the bureaucratic positions, in charge of budget management. It is a well-known situation that senior MoF management traditionally has

been occupied by the members of MoF Inspectors Board and Tax Inspectors' Board (Güzelsarı, 2007), both of that have career paths.

On the other hand, as noted by Poulantzas (1975) and to some extent Gramsci (2007) it is not necessary for ruling class to occupy elite positions, since state automatically tends to serve to the interest of ruling class because of its institutional structure and the behaviors of occupants of the elite positions are determined by their class position, not their class origin. Reclassified budget data shows that market sector has been supported either through the withdrawal of state sector from some traditional social policy areas such as education and health or directly transferring of public funds. In this regard, regulation power of state becomes important because, as a result of neo-liberal policies, the role of the state in providing the public services like education and health was redefined. As a result, after taking the office, as the single party, ANAP dramatically changed the expenditure patterns on public and private goods, in favor of public goods and same policy preferences were adopted by followers.

After mid-1990s, the amount of budget expenditures on public goods were boosted because of the interest payments. There are two main outcomes of this changing pattern in public goods. First effect occurs in the current time period; state sector allocated significant amount of public resources to large scale capital, particularly finance sector and as a result they became stronger in terms of accession to economic resources and state helped acceleration of capital accumulation for a specific group of capital holders. Additionally, current governments' ability to execute discretionary policies became limited. Second effect occurs in the coming time periods; deficit financing through borrowing results in transferring of funds from future generations in favor of current generations in order to reduce their tax burden and increase their wealth.

As a result of declining trend in budget expenditures on private goods, state's activities on education and health were also reduced. The main outcome of the withdrawal of state sector from these sectors was growth of market sector. Due to the insufficient allocations to education and health services to state sector, considerable amount of education and health spending have been financed by private out-of-pocket spending. In this regard, as a reflection of redistributive policies, withdrawal of state from the supply of educational and health services changed power balance between in

favor of capital. Because of the disparities in educational services preparatory training programs became an important sector in addition to the private primary and secondary schools, and private universities. It is more striking in health sector, and privatization of health sector went beyond the educational services. Although, private consulting rooms of physicians and private clinics have been operating in Turkey for decades, since 1990s, revolving funds of public hospitals and public universities encouraged citizens for out-of-pocket spending to get special medical care and priority in health services, and these funds are used for financing of hospitals' expenditures and supplementary payments to health sector staff, who are all civil servants. Eventually due to their characteristics as being a part of social policies, education and health has been traditionally considered as publicly provided private goods, but liberalization policies, introduced since 1980s, evolved them as privately provided private goods.

Another policy implementation for supporting market sector is direct transfers. Putting aside the transfers to financial sector, trends in the last two decades indicate that state sector provide more supports to middle scale capital comparing to large scale capital. The share of large scale capital benefited from public funds were greater in early years of analysis period, however in recent years transfers to both capital groups were equalized. Therefore, small and medium scale capital strengthened its position against large scale capital. One of the most significant developments in 1980-2003 period was the protection of agricultural sector's share in small and medium scale capital while electricity, gas and water supply sector kept its highest position as another strong capital group in large scale capital. However, it is worth to mention that governments' incentives to tourism and foreign trade demonstrated their influences as a strong contribution for capital accumulation in these sectors.

However, as a reaction to centralist budget management approach the budget structure first fragmented in 1960s with the foundation SPO, and a further step was taken in mid 1980s with the separation of Treasury from MoF. Therefore starting from 1980s budget authority of bureaucracy was permanently dispersed among the organizations. Besides, foundation of new councils and committees, such as High Planning Council and Money Credit Coordination Committee was not only secured the involvement of political will in the critical decisions, but also reduced principal-agent problem by

determining the members among the politicians and bureaucrats, and increased coordination between different governmental bodies.

In addition to the fragmentation of responsibilities, appropriations allocated directly to MoF or distributed under its jurisdiction declined continuously during 1980-2003 period. Weakening of MoF's position in budget cycle had different consequences. It is observed that fragmented decision taking structure increased the representation of political will during the period of single party governments. Consequently, during the period of single party ANAP government the scope of publicly provided private goods changed considerably, which was requiring a strong political will. Adversely, fragmented and diversified budget structure made it difficult to take key decisions for politicians since it made complicated to have consensus and obstruct the decision taking mechanisms during the office terms of coalition and minority governments.

Dispersion of roles and responsibilities within the budget cycle created a new balance in the power relations between politicians and the bureaucracy. On the other side, legitimating the direct involvement of the representatives of interest groups in decision making mechanisms through Economic and Social Council, Coordination Council for the Improvement of Investment Environment and Tax Council created another breaking point in the power relations in budget processes. Establishment of these institutions supports Poulantzas' (1975) argument that the infrastructure is the main determinant. Strong economic blocs formally became a part of economic and fiscal policy formulation as the advisors. Consequently it created a virtuous circle and these relatively strong economic blocs became stronger in terms of the power that they hold.

In parallel with the Habermas' arguments on legitimizing the system by providing steering performance to economic sub-system and raise tax revenues from the capital and by using the budget revenues to maintain social, educational and welfare services and support ideological legitimacy of the whole system, budget serves as a securing mechanism. Consequently, norms, attitudes and values assure the conformity of political, legal and social sub-systems and as whole, larger system by providing mass loyalty (Pusey 1987). Therefore, state budget is a tool for organizing flow of public funds and secure social welfare performances which is essential for the mass loyalty. In this respect, budgetary transfers to different social groups

supports to mass loyalty on one side, and contributes fiscal skim-off on the other side.

Power balances changed not only from the local players' point of view, but also from the international organizations and multilateral bodies, involved in different stages of decision making and implementation process of budget cycle. As one of the main players, IMF has been involving in this practice through the number of stand-by agreements. However, almost all of them were not completed because of the resistance of politicians against the sharing of their power. World Bank also interfered through program and project credits which had conditionalities on modernization of public financial management and provided some technical assistance and reports to support officials to develop a capacity for introduction of a new budget system.

Until 2000 -2001 crisis most of these initiatives were unsuccessful attempts; however the crisis radically changed the balance of power relations in Turkey's political economy in favor of the international organizations. Following the crisis, the political resistance was effectively broken and IMF gained power in relations. The increase in the power of the IMF accelerated the reform process especially in financial sector. After late 1990s, EU also joined to the global actors that are creating pressure to modernize the fiscal management that means, in the end, to switch from a centrally managed rigid decision making structure to a transparent and pluralist policy making and execution mechanism.

As a result of post-crisis structural reforms carried over under the guidance of IMF and World Bank, and negotiations on the convergence to EU, budgeting and financial management processes transformed in line with EU practices which implies an increase in the efficiency of state's access and use of public resources in a more transparent way and accountable to interest groups. Supplementary regulations, supporting the direct participation of non-governmental decision making processes make interest groups effective. Public financial management transformed from the supply-driven demand management policies to post-Fordist policies which assure competitive advantages of capital by promoting economic conditions. In this regard, in addition to political parties and the bureaucracy, interest groups were involved in redistributive politics through several boards and councils established in post 2000 period, and they gained direct access to policy

takers and had opportunity to raise their concerns in different platforms. Efficient use of these platforms requires transparent fiscal management and wider budget scope. Enactment of Public Financial Management and Control Law secured a comprehensive budget structure while increasing transparency, decentralization and integration with global markets.

Another major conclusion of this study supports the argument stated by Jessop (1990) that the state has an operational autonomy and it is not automatically operates as a simple instrument of capitalism. It is a form of the alliances of different classes, and has its own institutional structure. In this regard, reclassified budget data shows that until 1996 the biggest share of budget expenditures were allocated to administration, military and juridical which are evaluated as the part of state apparatus by Poulantzas (1975) and Althusser (2000). However, starting from the last budget of DYP-CHP coalition government, the share of market sector exceeded allocations of the sum of execution office and military. Besides, this study also demonstrates that due to the limited discretionary capacity of the budget and the sophisticated technical structure of budget preparation and implementation processes the power of bureaucracy was significant over politicians. Although there was a dispersed organization structure and the share of MoF's budget in total was declining, using the authority to transfer among appropriations and the contingency appropriations, the Ministry still dominates the budget. In this regard, final bill shows significant differences from the budget law, because of the reallocations. Analyzing of budget data also shows that except military governments and first ANAP government when personnel expenditures were suppressed, the share of appropriations allocated to executive offices in total was quite significant, average of 6.3 percent over GDP. However, its share in total budget expenditures has been declining since 1992. It is similar for budget resources allocated to military, but the main difference is coming from their supplementary non-budgetary financing facilities such as Defense Industry Supporting Fund and a number of foundations. Therefore, even there has been a decline in budget appropriations for military, in reality the resources accessed and managed by military was not declining.

Besides, religion, as a part of socio-cultural system in Habermas' conceptualization and as an ideological state apparatus in Althusser's (2000) arguments holds a relatively constant level in budget allocations during the

period of analysis. The important development in this time frame was starting of direct transfers, as aids, from budgets to religious organizations in 1996. Surprisingly, there was no aid in the budget to the religious non-governmental organizations in RP-DYP government. The highest amounts were transferred to religious associations during ANAP-DSP government, specifically to Alevi foundations. The amount transferred to these organizations reached to USD 364.000 during the period of 2000-2002. This study demonstrates two findings regarding the religion spending. First, keeping the state expenditure on religion over total spending on the same level indicates a relative improvement since the share of other social groups other than the capital, which means politics, military and bureaucracy declined. Second, state provided a direct contribution in favor of the representatives of a particular faith via the budget resources.

As a result of redistributive expenditure policies power balances in relation with local and global factors changed. It created a financial burden on one side and required to formulate a distribution channel of this burden among different social groups on the other side. Reclassified budget data showed that the social costs of publicly provided services were transferred from capital to households through increasing share of the indirect taxes. Besides, state sector did not share the burden of public expenditures to a significant extent and the share of non-tax revenues raised by state operations was relatively low. As a result, it is possible to argue that households are the main source of financing for the cost of state operations such as personnel expenditures and transfers to market sector, moreover because of the withdrawal of state from the public services such as education and health, households are transferring additional resources to the capital through the out-of-pocket spending.

As the final words, this study demonstrated that it is possible to transfer means of productions to different social groups but budget itself is not enough to explain all economic and fiscal relations between state sector and the different sectors of the society. One of the reasons behind this weakness is the insufficient involvement of interest groups until recent years. Organized business increasingly involved in budgetary decision making mechanisms, especially starting from the last decade, but it is not possible to express a similar interest from the organized labor. Consequently, it not possible to assert that there is a pluralist budget system in Turkey. However,

it is not also possible to state that budgets are preparing and implementing by a number of bureaucratic and political elites in order to serve interests of specific power groups.

On the other side, due to the increasing awareness of non-governmental bodies on the importance of the budget and with the influences of integration of Turkey's global economic and financial structure, there has been a pressure to adopt budgets to the demands of different economic, social and political sectors. Therefore, budgets are no more evaluated as a technical document which has to be prepared as a need of state's internal requirements. In this respect, externally stimulated post 2000 reforms in fiscal management are considered as only an introduction of pluralist budgeting approach; but the power of Ministry of Finance on budget processes are still outstandingly strong and adversely the role of parliament is quite weak. Mounting of transparency in budget procedures and growing interest of non-governmental organizations such as The Economic Policy Research Foundation of Turkey (TEPAV) and The Turkish Economic and Social Studies Foundation (TESEV) and increasing integration of Turkish financial markets to global markets will cause pluralist approach to be stronger. However, under the current conditions, organized business gained access to influence budget processes and public resources are mainly directed to market sector.

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## Appendix : Summary Tables of Budget Data

	Table C.1: Consolidated Budget (Program and Realization)									
	Budget Expenditures					Revenues				
	Million TL		% GDP			Million TL		% GDP		
Program	Realization	Program	Realization	Program		Realization	Program	Realization		
AP	1980	717.636	1.361.829	13,7%	26,0%	706.687	974.650	14%	19%	
MILITARY	1981	1.546.611	1.893.927	19,6%	24,0%	1.480.965	1.511.648	19%	19%	
MILITARY	1982	1.689.601	2.097.194	16,1%	20,0%	1.715.640	1.591.042	16%	15%	
MILITARY	1983	2.451.152	3.379.102	17,6%	24,3%	2.408.903	2.634.902	17%	19%	
MILITARY	1984	3.045.252	4.855.185	13,8%	22,1%	2.911.982	3.693.098	13%	17%	
ANAP	1985	5.445.828	6.422.557	15,5%	18,3%	4.912.082	5.753.920	14%	16%	
ANAP	1986	7.113.697	8.505.819	13,9%	16,7%	6.600.000	6.629.711	13%	13%	
ANAP	1987	10.942.911	12.882.591	14,6%	17,2%	9.955.000	9.894.322	13%	13%	
ANAP	1988	20.703.548	22.324.000	16,0%	17,3%	18.254.481	16.813.000	14%	13%	
ANAP	1989	32.888.715	38.633.000	14,5%	17,0%	28.256.276	30.210.000	12%	13%	
ANAP	1990	63.925.834	66.872.000	16,3%	17,0%	53.385.000	55.067.000	14%	14%	
ANAP	1991	105.217.786	130.641.000	16,7%	20,7%	83.360.000	96.373.000	13%	15%	
DYP - SHP	1992	207.556.688	217.068.000	19,0%	19,9%	174.880.000	174.150.000	16%	16%	
DYP - SHP	1993	398.711.598	499.548.000	20,1%	25,2%	342.400.000	350.845.000	17%	18%	
DYP - SHP	1994	823.397.712	946.662.000	21,3%	24,5%	624.000.000	742.499.000	16%	19%	
DYP - SHP	1995	1.335.981.051	1.784.950.000	17,2%	23,0%	1.127.000.000	1.387.760.000	15%	18%	
DYP - CHP	1996	3.556.529.248	4.065.037.000	24,1%	27,5%	2.640.000.000	2.684.968.000	18%	18%	
RP - DYP	1997	6.344.894.500	8.274.307.000	22,0%	28,7%	6.237.920.926	5.726.932.000	22%	20%	
ANAP - DSP	1998	14.740.379.000	16.007.510.000	28,2%	30,7%	10.760.000.000	11.635.611.000	21%	22%	
ANAP - DSP	1999	27.169.328.200	28.358.276.000	35,1%	36,6%	17.950.000.000	18.657.677.000	23%	24%	
DSP - MHP - ANAP	2000	46.702.769.287	49.089.420.000	37,5%	39,4%	32.460.000.000	33.040.903.000	26%	27%	
DSP - MHP - ANAP	2001	48.243.120.784	82.129.837.000	27,0%	46,0%	42.827.000.000	50.890.481.000	24%	29%	
DSP - MHP - ANAP	2002	97.831.000.000	119.303.441.000	35,2%	43,0%	70.918.000.000	74.603.699.000	26%	27%	
AKP	2003	146.805.570.000	145.557.858.000	40,8%	40,5%	100.357.000.000	98.558.733.000	28%	27%	

**Table C.2 : Budget Spending Allocated to State Sector**

	Administration	Judicial	Legislation	Military	Religion
AP	217,401	14,484	1,841	128,989	8,099
MILITARY	439,980	26,241	1,590	322,427	14,780
MILITARY	720,351	29,537	400	353,254	17,049
MILITARY	1,011,381	52,439	571	492,684	25,830
MILITARY	1,197,806	66,302	4,251	645,456	33,734
ANAP	1,714,003	86,340	17,571	952,799	46,184
ANAP	2,263,035	124,372	26,197	1,440,652	66,457
ANAP	3,639,301	157,239	28,806	1,887,443	101,395
ANAP	6,454,941	257,254	49,216	2,684,306	190,302
ANAP	10,284,057	390,442	82,677	4,296,538	331,076
ANAP	23,187,162	850,569	197,095	8,743,677	1,116,099
ANAP	41,634,180	1,687,393	322,395	14,894,781	1,791,914
DYP - SHP	83,068,774	3,436,790	867,260	27,658,396	3,386,650
DYP - SHP	153,094,188	5,317,024	1,878,920	49,391,195	5,566,605
DYP - SHP	263,939,103	10,179,451	3,091,398	93,253,280	11,727,012
DYP - SHP	388,286,051	15,772,571	4,017,553	183,782,694	16,952,263
DYP - CHP	881,394,704	32,162,471	14,040,734	388,233,365	29,100,400
RP - DYP	1,733,512,529	65,672,610	21,743,825	790,210,964	67,213,850
ANAP - DSP	3,060,919,992	131,398,120	49,022,434	1,619,993,200	137,611,000
ANAP - DSP	6,116,274,280	264,028,120	77,301,250	2,926,548,000	247,781,633
DSP - MHP - ANAP	8,903,568,871	388,935,020	99,561,700	4,842,236,000	379,619,100
DSP - MHP - ANAP	11,458,837,572	487,567,610	113,276,813	5,893,460,940	431,329,600
DSP - MHP - ANAP	18,969,292,690	877,457,900	165,822,000	9,762,284,900	707,632,500
AKP	24,920,597,250	1,204,119,000	234,533,000	12,123,266,000	977,764,000

**Table C.3 : Budget Spending on Public and Private Goods**

		Million TL	
		Public Goods	Private Goods
AP	1980	335.230	421.461
MILITARY	1981	738.474	798.489
MILITARY	1982	880.610	898.854
MILITARY	1983	1.234.686	1.325.532
MILITARY	1984	1.548.602	1.666.116
ANAP	1985	3.740.419	1.662.803
ANAP	1986	4.631.542	2.479.274
ANAP	1987	7.145.632	3.747.458
ANAP	1988	12.904.130	7.832.425
ANAP	1989	21.408.424	11.536.915
ANAP	1990	38.192.686	25.732.668
ANAP	1991	62.584.197	42.546.763
DYP - SHP	1992	121.212.506	86.342.822
DYP - SHP	1993	236.059.189	162.650.809
DYP - SHP	1994	519.252.243	304.134.019
DYP - SHP	1995	869.906.274	467.789.783
DYP - CHP	1996	2.500.073.953	1.058.670.119
RP - DYP	1997	4.130.349.769	2.216.063.968
ANAP - DSP	1998	9.946.560.222	4.789.753.280
ANAP - DSP	1999	18.167.940.189	9.022.856.113
DSP - MHP - ANAP	2000	33.106.520.308	13.606.896.278
DSP - MHP - ANAP	2001	31.062.686.408	17.065.590.716
DSP - MHP - ANAP	2002	65.716.877.800	32.108.359.400
AKP	2003	95.669.512.779	51.212.766.221

**Table C.4 : Budget Resources Allocated to Market Sector**  
Million TL

		Large Scale Capital	Small and Medium Scale Capital
AP	1980	235.123	60.196
MILITARY	1981	512.124	81.144
MILITARY	1982	371.784	107.456
MILITARY	1983	574.472	150.251
MILITARY	1984	712.081	188.475
ANAP	1985	1.958.624	127.424
ANAP	1986	2.305.349	110.318
ANAP	1987	3.716.127	187.614
ANAP	1988	8.589.152	441.604
ANAP	1989	13.097.787	692.907
ANAP	1990	21.313.204	1.796.839
ANAP	1991	30.003.170	4.084.029
DYP - SHP	1992	60.331.775	7.431.651
DYP - SHP	1993	117.139.194	27.615.921
DYP - SHP	1994	299.710.496	62.560.981
DYP - SHP	1995	492.533.695	76.522.634
DYP - CHP	1996	1.597.580.304	147.900.754
RP - DYP	1997	2.321.396.729	419.431.922
ANAP - DSP	1998	6.595.599.590	727.400.660
ANAP - DSP	1999	12.188.464.721	1.495.091.486
DSP - MHP - ANAP	2000	23.722.888.497	2.160.473.299
DSP - MHP - ANAP	2001	19.638.872.800	2.095.380.997
DSP - MHP - ANAP	2002	48.056.050.210	5.639.391.000
AKP	2003	76.129.083.500	8.993.058.000



**Table C.6: Education Expenditures**

	PRE	SCE	TEE	REL	UNI	NCE
AP	49,968	23,866	1,319	1,709	39,318	2,960
MILITARY	75,110	43,997	3,914	3,476	59,432	6,219
MILITARY	91,012	64,537	4,689	4,901	72,089	6,662
MILITARY	152,303	90,570	4,938	7,784	112,571	12,790
MILITARY	203,893	83,738	5,822	9,937	128,170	18,831
ANAP	274,383	116,097	15,095	14,019	141,072	33,016
ANAP	355,759	156,806	26,139	19,674	219,167	48,879
ANAP	517,125	250,990	40,648	31,094	331,012	65,115
ANAP	990,664	451,547	80,961	54,507	647,056	181,742
ANAP	1,661,343	747,636	131,241	88,078	1,156,376	235,181
ANAP	4,830,248	2,173,097	338,546	328,086	2,757,920	601,010
ANAP	8,682,925	3,707,666	625,810	563,395	5,020,268	821,428
DYP - SHP	17,605,219	7,449,826	1,387,816	986,732	9,818,357	1,664,374
DYP - SHP	34,354,888	13,318,797	2,453,921	1,820,605	17,502,738	3,047,521
DYP - SHP	55,030,994	23,037,701	4,771,443	3,135,512	33,249,205	4,990,030
DYP - SHP	73,355,665	29,902,380	5,800,196	4,035,263	51,086,115	17,535,313
DYP - CHP	131,441,100	60,511,490	13,233,855	7,000,400	105,826,460	34,928,050
RP - DYP	268,360,850	125,489,600	22,469,317	17,726,300	89,593,410	72,028,850
ANAP - DSP	782,867,124	227,993,700	33,488,511	37,153,000	443,542,899	127,821,865
ANAP - DSP	1,305,203,845	422,602,499	62,362,522	69,086,633	768,716,315	217,890,253
DSP - MHP - ANAP	2,041,379,000	647,869,000	101,879,600	113,329,100	1,229,164,700	371,618,000
DSP - MHP - ANAP	2,503,578,000	829,539,500	136,628,400	119,442,600	1,634,578,550	431,120,125
DSP - MHP - ANAP	4,611,280,500	1,569,335,500	249,690,500	134,018,500	2,912,674,700	727,318,500
AKP	6,154,353,500	2,230,043,500	97,644,500	181,356,000	4,331,541,500	1,055,513,000
PRE	Pre-primary and primary education					
SCE	Secondary education					
REL	Religious Education					
	TEE					
	UNI					
	NCE					
	Tertiary education					
	Universities and other higher education					
	Education not definable by level					

Table C.7 : Breakdown of Budget Spending on Goods and Services Provided by Large Scale Capital

	Million TL				
	ELC	TSC	MAN	MIN	FIN
AP	46.601	45.904	68.320	5.541	68.757
MILITARY	103.871	109.698	158.350	6.868	133.337
MILITARY	112.695	127.015	19.172	6.802	106.099
MILITARY	161.578	181.656	25.031	10.202	196.005
MILITARY	212.736	220.053	44.628	14.000	220.665
ANAP	339.686	251.286	77.935	17.305	1.272.412
ANAP	410.579	371.699	114.525	22.010	1.386.536
ANAP	557.256	494.781	247.115	35.015	2.381.960
ANAP	1.302.831	761.415	470.873	53.350	6.000.683
ANAP	1.996.632	1.194.114	422.336	18.034	9.466.671
ANAP	3.163.770	2.165.006	1.084.897	185.190	14.714.191
ANAP	4.472.879	3.276.145	1.122.790	280.335	20.851.011
DYP - SHP	9.384.541	6.263.181	1.842.156	693.810	42.148.052
DYP - SHP	17.155.610	11.796.958	8.476.446	1.383.035	78.326.995
DYP - SHP	31.830.555	22.299.558	25.168.012	2.055.800	218.355.521
DYP - SHP	43.880.145	32.553.625	24.344.804	2.390.500	389.358.521
DYP - CHP	97.430.300	69.042.565	66.394.103	3.054.200	1.361.657.136
RP - DYP	190.734.825	141.567.113	110.482.383	8.170.450	1.870.435.008
ANAP - DSP	306.874.650	228.091.836	154.824.905	2.540.000	5.903.255.203
ANAP - DSP	519.052.280	343.253.936	1.006.709.006	5.905.000	10.313.523.503
DSP - MHP - ANAP	929.808.062	621.655.495	1.007.822.942	10.549.000	21.153.025.004
DSP - MHP - ANAP	1.337.435.000	938.174.799	629.528.001	15.748.000	16.717.850.001
DSP - MHP - ANAP	2.124.894.010	1.841.784.200	1.151.219.000	22.412.000	42.915.500.001
AKP	3.622.042.500	2.642.425.000	2.648.714.000	110.270.000	67.105.500.001

ELC : Electricity, gas and water supply  
 TSC : Transport, storage and communication  
 MAN : Manufacturing  
 MIN : Mining and quarrying  
 FIN : Finance and insurance services

**Table C.8 : Breakdown of Budget Spending on Goods and Services Provided by Small and Medium Scale Capital**

	AGR	TRD	CON	EDU	HEA	HOT	RES	OTH
AP	32,257	3,820	9,054	35	4,122	1,439		9,470
1980								
MILITARY	45,076	6,201	15,989	90	9,221	3,949		617
1981								
MILITARY	50,638	14,224	33,245	160	6,840		1,000	1,350
1982								
MILITARY	79,708	18,584	37,859	19	10,777		500	2,804
1983								
MILITARY	108,707	16,857	46,654	37	10,897			5,323
1984								
ANAP	52,093	22,727	28,008	0	17,882	477		6,237
1985								
ANAP	39,432	26,364	17,819	428	19,824	1,150		5,302
1986								
ANAP	62,042	37,800	21,302	364	59,101	998		6,007
1987								
ANAP	166,707	71,259	51,382	53,339	84,757	1,181		12,979
1988								
ANAP	204,490	218,755	73,303	47,032	130,730	1,901		16,696
1989								
ANAP	477,362	683,700	134,985	39,920	365,840	63,468		26,914
1990								
ANAP	2,253,894	927,665	223,413	74,990	436,800	115,748		37,544
1991								
DYP - SHP	3,910,624	1,672,183	429,210	76,346	1,055,850	218,771		48,560
1992								
DYP - SHP	15,020,102	3,489,861	6,333,429	250,298	1,675,974	448,113		90,060
1993								
DYP - SHP	35,347,883	10,827,985	10,701,302	715,600	3,457,000	684,351	25,000	436,860
1994								
DYP - SHP	44,236,524	15,343,406	8,367,003	1,488,100	5,128,000	874,201	25,000	798,800
1995								
DYP - CHP	47,942,172	51,667,578	23,137,403	2,647,000	16,657,850	1,843,351	25,000	1,121,600
1996								
RP - DYP	193,740,512	128,728,486	45,769,903	3,837,700	37,016,700	2,212,201	30,000	1,887,720
1997								
ANAP - DSP	346,780,653	218,544,004	83,955,003	7,288,000	53,588,000	4,044,000		7,706,000
1998								
ANAP - DSP	734,449,253	501,094,980	117,879,003	33,910,000	82,113,000	5,351,000		12,137,250
1999								
DSP - MHP - ANAP	898,076,679	771,499,117	239,201,003	33,344,000	153,554,000	23,475,500		27,148,000
2000								
DSP - MHP - ANAP	845,962,001	916,994,996	55,935,000	31,850,000	193,970,000	24,304,000		8,312,000
2001								
DSP - MHP - ANAP	2,753,515,000	2,208,428,000	75,231,000	55,423,000	317,892,000	25,690,000		191,673,000
2002								
AKP	3,294,428,000	4,381,599,000	112,559,000	161,680,000	796,827,000	33,205,000		198,885,000
2003								

AGR : Agriculture, forestry and fishery  
 TRD : Wholesale and retail trade  
 CON : Construction  
 EDU : Education  
 HEA : Health and social works  
 HOT : Hotels and restaurants  
 RES : Real estate and renting  
 OTH : Other



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Dr. M. Coşkun CANGÖZ is Director General of Public Finance in Undersecretariat of Treasury, since November 2005. He started his career in Treasury in 1991 as an Assistant Specialist. He then, worked as Specialist, Section Chief and Department Head on the areas of domestic borrowing, development of external debt information system and the management of contingent liabilities. He actively involved in public financial management reform and he was one of the members of the core group for debt management reform of the Republic of Turkey. In 2002, he was appointed as Deputy Director General of Public Finance and founded the risk management department in the Treasury. He also involved in public expenditure and institutional review studies of World Bank.

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