EFFICIENCY IN RESOURCE ALLOCATION*

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ABSTRACT

Efficiency in resource allocation is the most important goal of fiscal policy and without fulfillment of this goal, it is impossible to improve the income distribution and macro economic stabilization goals of the modern public finance. This main goals of fiscal policy was successfully applied by the western welfare states, known as social states in Europe, to some certain degree in Turkey in 1960s and 1970s. Whereas, neoliberal monetary policies such as privatization, deregulation and financial liberalization resulted in world wide economic crises since 1980s. For this reason, this study is based on the fiscal policies developed by Richard Musgrave, which became the theoretical back up in establishing social states in Europe in 1960s and in 1970s. Efficiency in resource allocation calls for satisfaction of public and private wants by private and public sectors efficiently. For this reason, we analyze the efficiency conditions to be applied to private and public goods and services. Based on social production possibility curve and social indifference curve analysis equilibrium conditions for both sectors are set. Examples of inefficiencies in private and public sector in Turkey are given in the first part of this article. In the second part of this study, some distorting cases from efficiencies are explained and my suggestions to restore efficiency are stated.

Keywords: Goals of Fiscal Policy, Efficiency in Resource Allocation, Pareto Efficiency, Social Production Possibility Curve, Social Indifference Curve, Inefficiencies, Social Balance.

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KAYNAKLARIN ETKİN AYRIMI (TAHSİSİ)

ÖZ

Kaynakların etkin ayrımı (tahsisi) maliye politikasının en önemli amacıdır ve bu amaç yerine getirilmediğinde, gelir dağılımını iyileştirme ve kamu maliyesinin makro ekonomik istikrarını sağlama amacını yerine getirme olanağı yoktur. Maliye politikasının bu ana amacı, 1960'lı ve 1970'li yıllarda Avrupa'da refah (sosyal) devletlerinde ve Türkiye'de başarıyla uygulandı. Buna karşın, 1980'li yıllardan beri özelleştirme, serbestleştirme ve finansal liberalizasyon gibi parasal politikalar dünya çapında ekonomik krizlerle sonuçlandı. Bu nedenle, bu makale 1960'lı ve 1970'li yılların teorik dayanağı olan, Richard Musgrave'in geliştirdiği mali politikalara dayanmaktadır. Kaynak ayırımında etkinlik, kamu ve özel sektörde kamusal ve özel ihtiyaçların etkin bir biçimde giderilmesini gerektirir. Bu nedenle, bu çalışmamızda özel ve kamusal mal ve hizmetlere uygulanacak olan denge koşullarını analiz etmekteyiz. Her iki sektör için denge koşulları sosyal üretim olanakları ve sosyal kayıtsızlık eğrileri analizine göre ortaya konulmaktadır. Makalenin ilk kısmında Türkiye'de kamu ve özel sektördeki etkinsizlikler sayılmaktadır. Makalemizin ikinci kısmında ise, her iki kesimi etkinlikten uzaklaştıran bozucu durumlar özlü olarak anlatılmaktadır. Sonuç kısmında ise, ekonominin genelinde etkinliği yerine getirmeye ilişkin önerilerimiz açıklanmaktadır.

Anahtar Kelimeler: Maliye Politikasının Amaçları, Kaynak Ayırımında (Tahsisinde) Etkinlik, Pareto Etkinliği, Sosyal Üretim Olanakları Eğrisi, Sosyal Kayıtsızlık Eğrisi, Etkinsizlikler, Sosyal Denge.

INTRODUCTION

In order to reach to welfare maximization in a mixed economy, three main and four sub goals of the public economy should be fulfilled. Three main goals of the public economy are; efficiency in resource allocation, fairness in income distribution and stabilization. The first two goals (efficiency and equity) are the preconditions to be met to secure the macroeconomic stabilization and it's sub goals. Sub goals are sustainable growth rate, fulfillment of full employment, maintaining price level stability and balance in international trade. Unless the priority is given to the goal of efficiency in resource allocation, it is impossible to secure the other main and sub goals of the economy. If otherwise, the problems of conflicts and interdependences between the main and sub goals can not be solved. For this reason, a proper fiscal policy should be designated in order to correct the trade-offs between all goals and to encourage the interrelatedness among the functions of the public economy. In this chapter we use some tools of welfare, political and micro economics in order to explain how to reach efficiency in resource allocation. The first part of this paper includes some models in setting the efficiency considerations in resource allocations. Thus, we make use of social possibility curve and social indifference curve analysis in setting the welfare maximization in terms of social balance and governmental involvement in efficiency in resource allocation. In the second part of our study, cases that distorts efficiency in resource allocation, with specific reference to Turkey, will be considered.

I. THE GOAL OF EFFICIENCY IN RESOURCE ALLOCATION

The basic task of economics is to deal with the satisfaction of unlimited scope of human wants with limited resources. Quality and the quantity of the factors of production such as the land, labor, capital and the entrepreneurship are not sufficient enough to produce goods and services along with the unlimited wants of the human beings. Since, unlimited quantity of goods are not produced with the limited factors of production, it calls for allocation of resources efficiently. Thus, the term of efficiency in resource allocation means, proper use of scarce resources both in market and public sectors to satisfy private and public goods. This means that market economy can not secure the efficient resource allocation per se, without governmental intervention. In the broader sense, efficiency in resource allocation calls for distribution of resources between public and private sector in order to satisfy the public and private wants efficiently.

There are many important differences between the satisfaction of private and public (social) wants. Private wants are satisfied by private goods, subject to supply and demand laws of the market mechanism. Prices of the private goods are determined by the supply and demand and it is paid on the voluntary basis. Whereas, satisfaction of the public wants depends on the political decision making process. Voters reveal their preferences (demands) for the public goods through voting process in the election periods. On the other hand the provision (supply) of the public goods is determined by the politicians, bureaucrats, big business and voters. Among these the big business and their pressure groups strongly affect the political decision making process much more than the voters.

A. Resource Allocation in Economic Systems

Each economic system determines the quantity of the public and private goods to be produced by market and the public economy. Most of the factors of the production are allocated by the state in socialist system, and the least by the market mechanism. But in capitalist system the most of the resources or the factors of production are used by market mechanism and the least part of the sources are used in public economy. Between these extreme economic systems, there are four types of mixed economic systems (Şener, 2014).

1. Capitalism

Capitalism is an economic system based on private ownership of capital and factors of production. Profit maximization and increasing consumption are the main goal of producers and consumers. The production of goods and services is based on the supply demand laws operating in markets. Governments involve in production and regulations in varying degrees in different models of capitalism, Capitalism rose to prominence with the end of feudal economies. Its varying forms from wild capitalism (USA and Turkey) to social market economy (Germany) and state capitalism (China and Russia) became the economic system of all of the Western countries. It is being highly criticized for it's underlying emphasis on profit leading to serious economic inequalities.

2. State Socalism

It is a doctrine advocating a planned economy controlled by the state, with state ownership of all industries and natural resources. Examples include former Soviet Socialist Republic, China, Cuba and North Korea. The

power of the state is employed for the purpose of creating an egalitarian society by means of public control of major industries, banks etc, couples with economic planning and a social security system.

3. State Capitalism

In today's China state supports private firms, in it's state dominated socialist economy. State capitalism is a form of economic system in which the state owns or controls most of the means of production. South Korea also applies state capitalism, even though it is market oriented country.

4. Social Market Economy

Some economies function on behalf of the society, where the state oriented and market economy operates together as in Germany, in order to establish social state.

5. State Oriented (Dominated) Economy

As in the Scandinavian and in many of the European countries, such as France, Holland, Italy and other countries state dominates the economy. Although, these countries are mainly public oriented (or leaned) in nature, but they have also very developed market economies.

6. Market Oriented (Dominated) Economy

Most of the sources are allocated by the market mechanism as in the USA. Due to globalization movements which started in 1980's many countries are tending to neo liberalism, in which the role of the state reduced too much, as it happened to be in Turkey. Although, Turkey is a social state according to it's constitutions, but it became a market dominated economy since 1980s.

II. FACTORS AFFECTING EFFICIENCY IN RESOURCE ALLOCATION

There are too many factors negatively affecting efficiency in resource allocations and optimal inter sector allocation in public and private sectors as stated below(x). These distorting effects comes into operation in both market and public economy as the result of economic systems, mismanagement, and inefficient decision making process both in public and market economies. Important cases of efficiency and inefficiencies in public and market economies are as follows.

- Imperfect competitive conditions such as monopoly and oligopolies,
- conspicuous consumption motivation in market sector,
- free rider motivation in public sector,
- decreasing production conditions due to economics of scale,
- long run declining average cost in a natural monopoly,
- positive and negative externalities,
- zero marginal cost case,
- price discriminations,
- asymmetric information and principal agent problem,
- advertisements causing distortions in consumers preferences,
- waste in public sector,
- political connections leading to rent seeking,
- city rents leading to corruption,
- corruption in public sector,
- spoil system in public administration,
- campaign finance during the elections,
- financing religion by state,
- misadministration in public economy,
- spoil system in public administration,
- size of the government,
- number of the ministries,
- unfair income distribution,
- unfair and inefficient taxation system,
- quality of democracy and
- the low level of quality of education, health, social housing, mass transportation an social security services.

These inefficiencies in market and public economy negatively affected the wealth of the Turkish society as shown by international surveys like HDI (human development index, Corruption Perception Index and Legatum

Better Life Indexes) many surveys(x). Effects of some of these factors on efficiency in resource allocation in Turkey, will be explained briefly below (Legatum, 2014).

(x) **Housing:** room per person (32/36), dwellings with basic facilities (35/36), housing expenditures (21/36), **Income:** household net adjusted disposable income, J o b: employment rate (36/36), gender inequality (36/36), personal earnings (33/36), job security (33/36), **Community:** quality of support network (33/36), **Education:** educational attainment (36/36), gender inequality in education (35/35), years of education (32/36), **Environment**: air pollution (35/36), water quality (35/36), **Civic Engagements:** consultation on rule making (26/36), voter turnout (5/36), **Health:** life expectancy (33/36), self reported health (22/36), **Safety:** assault rate (28/36), homicide rate (30/36), **Work - Life Balance:** employee working very long hours (36/36), **Life Satisfaction:** (35/36), gender inequality (30/36), leisure time (36/36).

III. ECONOMIC ANALYSIS OF EFFICIENCY IN RESOURCE ALLOCATION

If the division of resources between the public and private sectors enables the citizens to satisfy their public and private wants efficiently, then optimal inter sector allocation will occur. In this case actual and optimal inter sector resource allocation will coincide leading to social balance. When the national income is divided equally between the public and private sectors, as it was the case in European countries in the years of 1960s and 1970s, possibility of existing of optimal inter sector allocation would be increases. This happened to be in European countries in 1960s and 1970s, where the size of the public sector reached to %50. However, as in the example of USA where 34% of the national income is allocated to state, optimal inter sector allocation can not be reached. The same holds true for Turkey, where only 20s% of the national income is allocated to public economy.

When optimality in resource allocation is reached, true preferences of the citizens for the private goods are made effective by the distribution of income and the wealth. On the other hand, optimality in resource allocation in provision of public goods is achieved, when the voting power among the citizens is revealed through the political decision making process and when income is fairly distributed. The following model explains

how the optimality in inter sector resource allocation is reached by making use of social production and social indifference curve analysis, based on marginal rate of substitution and marginal rate of production concepts (Herber, 1983).

A. Social Production Possibility Curves

In explaining the inter sector optimality, social production possibility curve and social indifference curve analysis are used, as explained below Figure 1. Any point on social production possibility curve relates the marginal rate of transformation between the production of public and private goods.

Marginal rate of transformation (MRT) It is the rate at which one good must be sacrificed in order to produce marginal unit of another good, assuming that both goods require the same scarce resource. MRT is the absolute value of the slops of the social production possibility curve. For each point on the production possibility curve there is different MRT, based on the producing each product individually. The MRT allowed economists to analyze the opportunity cost to produce an extra unit of another good. Opportunity cost is represents in the lost production of another good.

The lower the level of social production possibility curve, the weaker the production potential of a country. The position of social production possibility curve can be shifted upwards by increasing the productive resources, sustainable growth rate or adopting new technologies, innovations and public borrowings. It shifts downwards during the wars, severe earthquakes, economic crises and mismanagement of public and private sectors. On the other hand, improvement in income distribution and political decision making process, it shifts upwards leading to higher welfare. In these cases the higher the social production curve the greater the production potential of the society and the social welfare.

The shape of the social production possibility curve is concave to the origin, because resources can't be substituted with equal efficiency. This means that a reallocation of resources from one sector to other one would increase and decrease the quantity produced. This relationship is shown below figure, where the vertical axis represents the public sector output and the horizontal axis showing private output.

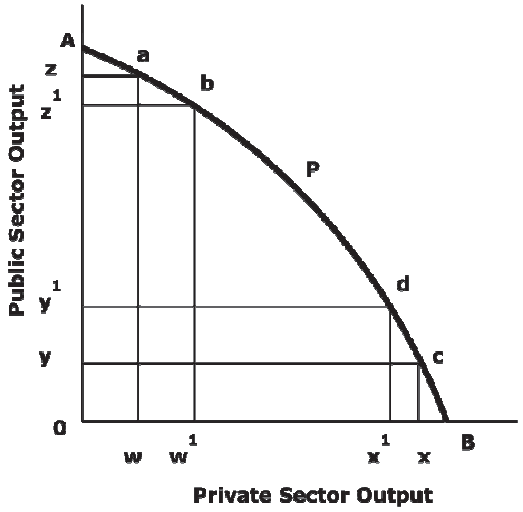


Figure 1: The production possibility curve for a society

A movement at the lower part of the social production possibility curve from (c) to (d) adds more to the provision of public goods more than the same resource could produce private goods. Conversely, a reallocation of the resources from public sector to private sector, or from (a) to (b), it increases the quantity produced in private sector more than the that of public sector. Thus, unequal trade-offs occur because the Law of Decreasing (diminishing) returns to scale comes into operation in both sectors. On the other hand, producing too many goods in one sector, result in operation of increasing cost conditions to occur. As shown by (F) when resources are efficiently allocated between public and private sector, Pareto conditions are satisfied(x).

The nature of some goods and services such as defense, justice and compulsory education calls for provision of these services only by public sector. If otherwise, cost of production would be too high if these services were produced by market mechanism. Because citizens are not likely to reveal their true preferences due to collective consumption, non exclusion, and indivisible characteristics of public good. As we move from the upper and lower part of the social production possibility curve towards to point P, effects of the Laws of Increasing and Decreasing to scale disappears. At this point equal trade-offs occurs and optimal resource allocation is reached (Herber, 1983).

(x) **Pareto Efficiency Conditions:** Many economists use Pareto Efficiency in consumption are the same for all consumers. Pareto Optimality occurs when no consumer can be made better off without making others worse off. In order to achieve Pareto Optimality four conditions must be met.

1. The marginal rate of substitution in consumption must be identical for all consumers. This conditions is satisfied when no consumer is made better off without making other consumer worse off.
2. The marginal rate of transformation in production must be equal for all products. This occurs when it is impossible to increase the production of any good without reducing the production of other goods.
3. The marginal resource cost must equal to the marginal revenue product for all production process.
4. The marginal rate of substitution in consumption must equal to the marginal rate of transformation.

B. Social Indifference Curves

Social indifference curve that slops down to the right, depicts equal level of welfare for a society in consuming different combinations of public goods and services by a society. Since, each point on it represents the same level of social welfare, social indifference curves are parallel to each other and thus they never cross, like market type indifference curves.

To derive the proper position of point of P, corresponding to the optimal inter sector resource allocation, social indifference curve analysis must also be used. Each social indifference curves represent marginal rate of substitutions between private and public goods consumption, which yields the constant level social welfare. Marginal rate of substitution (MRS) It is the amount of the good that a consumer is willing to give up for another good. It is calculated between two goods placed on an indifference curve which is represents by the slops of the social indifference curve. The law of Diminishing Marginal Rate of Substitution (MRS) indicates that, it decreases as one moves down along with the social indifference curve. As it is used in explaining the fairness of income distribution, Pareto conditions are also applied to determine the efficiency in resource allocation as well. The higher position of the social indifference curve enables greater level of

consumption possibilities from public and public goods. Thus, the higher level of social indifference curve also yields a high level of social welfare as shown by (s4).

The position of social indifference curves are determined by two factors. The first one is the state of income and wealth distribution as made effective by market mechanism. The second one is the political influence or revealing the ture preferences of the citizens through political decision making process. Because, preferences of the citizens for private goods can't be made effective, unless they are backed by certain purchasing power in the market economy. This is why the fairness in income distribution as determined by the market is very important. On the other hand, equal consumption of public goods by under the equal representation in political decision making process is necessary. If pressure groups of big business affect the budgetary decisions, equal consumption of public goods are not possible for others. For this reason, governing parties and the bureaucrats should provide public goods to each citizen equally.

Contrary to the social production possibility curve, the shape of the social indifference curve is convex to origin. Because each social indifference curve represents diminishing marginal rate of substitution between the consumption of public and private goods, giving a constant level of welfare.

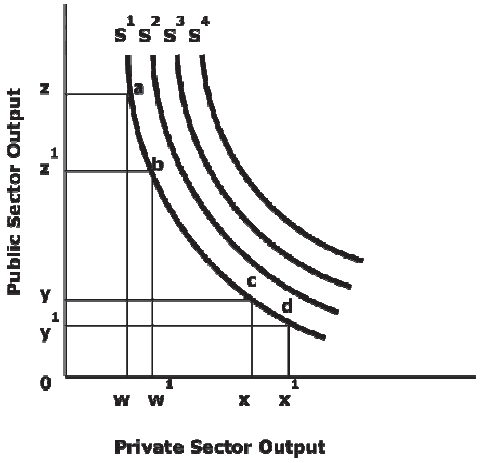


Figure 2: Social Indifference Curves

As shown by the upper part of social indifference curve, society is willing to give up more public goods to get a smaller quantity of private goods. On the other hand at the lower end of the social indifference curve society is willing to sacrifice more of the private goods to gain less amount of public goods. In this case, society is willing to give up less than proportionate amount of public goods as shown by a movement from (a) to (b). If society moves from (d) to (c), then it sacrifices less amount of private good but gains more amount of public good and services.

C. Optimal and Suboptimal Intersector Resource Allocation

Intersectoral allocation efficiency is reached where the social production possibility curve is tangent to one of the social indifference curve at point (a). Point (a) is the best obtainable point to maximize the welfare of the society, where the marginal rate of transformation is equal to marginal rate of substitution. This means that, at this point society's production capacity is matched with the preference of the citizens. This is the best obtainable point that represents the social balance, as proposed by Galbraight.

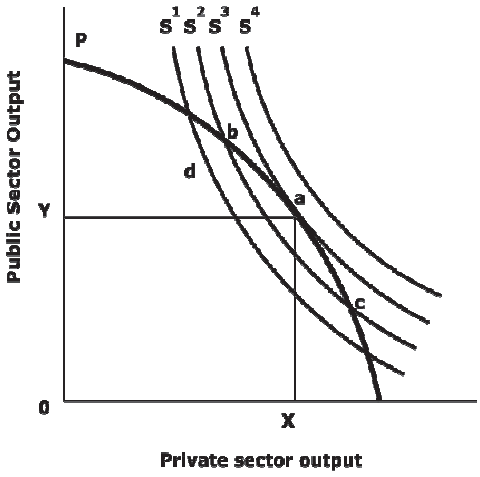


Figure 3: Optimal intersectoral allocation

Social Balance This term was first used by Canadian Economist, John Kenneth Galbraith, in his book Affluent Society (Galbraight, 1958). Galbraith applies this term to American market oriented economic system.

He criticizes the system because private goods such as luxury housing and big size cars are overproduced at the expense of less quantity and quality of public goods such as health and education. He also argued that although the private needs of high income class are satisfied, but social wants such as health and education are not satisfied adequately for the majority of people. This leads to social imbalance problem in American Society. For this reason, he supports public oriented economic system to overcome social imbalance problem to increase social welfare. The term social imbalance result in under allocation of the sources to government. In socialist countries resources are over allocated to public sector, whereas in a capitalist country resources are over allocated to state, leading to inefficiency in resource allocation. Social imbalance in terms of over allocation and under allocation problem can only be solved only in state oriented economies, known as social state (welfare state), where the share of the government in national income is around to 50 percent. The state of social balance has been realized in European countries between the 1950s and 1980s, where the economic system was state dominated. However, due to regulations of public services and privatization of state economic enterprises, the social state understanding is being highly violated in recent decades leading to inefficiencies.

IV. INEFFICIENCIES IN PUBLIC SECTOR

Efficiency conditions are negatively affected by the operation of political decision making process. Political decision making process is determined by politicians, bureaucrats, big business and voters. Among them, big business affect provision of public goods and services more than others. This means that voters preferences revealed through elections may not coincide with production possibilities of the society. Followings are the important cases causing distortions from the efficiency in resource allocations in public sector in Turkey.

1. Politicians

The main goals of Politicians are to maximize their votes and to be elected twice in next elections. To maximize their votes they offer bundle of public services reflecting the preferences of voters. In order to increase the number of votes they prepare large budgets calling for large budgetary propositions. However, enlarged budgets calls for increase in taxes, which

in turn decreases the number of votes. Not to loose votes, they don't increase the indirect tax revenues. Thus, budget deficit is matched with the increasing public debt, which is financed through the increase in indirect tax revenues. However increase in indirect taxes and price of the public utilities result in decrease in social welfare of the society.

Politicians also try to maximize their income, in order to finance campaign finance and to compensate the income lost, if otherwise they weren't elected. Or this reasons, some of the politicians can be easily bought by the opponent parties during the reliance voting and establishments of the governments. During the reliance voting held in 1980s about 200 members of parliaments transferred from their parties to other parties, leading to bribe and political corruption.

2. Bureaucrats

The aim of the bureaucrats is to enlarge the bureau that they are controlling and increase their income and side benefits. Enlarging their power means to increase the number of the government employees and the workers, most of them are from their birth places. This would enable them to gain political support to be elected as a member of parliament. Thus, they prepare public projects mainly favoring for their election regions, at the expense of decreasing in national interest. Thus, alternative social cost of these projects exceeded the social benefits, leading to inefficiencies in resource allocation in public sector.

Bureaucrats in Turkey want to have luxury offices, very expensive cars and hire too many employees. They can easily influence politicians because ministers need their technical expertise, in preparing the central government budget.

3. Big Business

Big firms exert heavy influence over governments through their businessmen associations such as TÜSİAD, MÜSİAD, press, media and other pressure groups in Turkey. During the election period they support political campaigns to get more tax benefits and buy public companies. Some private companies known as political siders, gain a lot of money in housing, road transportation, health and construction sectors at the expense of distorting competitiveness in market economy. Thus, some of the business

firms not only causing inefficiencies in markets but they also distorted fair competition conditions among the political parties.

4. Voters

Voters reveal their preferences for public goods and services during the election periods undertaken within 4 or 5 years. In addition to this, most of the voters are motivated with their religious and nationalistic feelings, that can be easily exploited by the politicians. For this reason, unlike in Western democracies all governments are established by right wing political parties. Whereas, a social democratic party could became coalition partner only one term since 1970s. Thus public budgets reflects the preferences of right wing politicians leading to market oriented economic and financial policies. This process of political decision making resulted in over allocation resources to private goods and under allocation to the provision of public goods.

5. Political Decision Making Process

Turkish Election Law has been formed in 1980s not to allow coalition governments by imposing 10% national election threshold. Political parties like ANAP (Motherland Party) and AKP (Justice and Development Party) gained 2/3 of the seats at national assembly, with only 1/3 of the total votes leading to very serious misrepresentation problem. This misrepresentation problem gave rise to one party government in Turkey for the last three election period leading to government budget providing public services only for 1/3 of the electors. In addition to that, in small size election regions about 30 000 votes is good enough to elect one MP (member of parliament), whereas more than 130 000 votes are needed to choose a MP in big cities, increasing the misappropriation problem. In Eastern Turkey most of the voters are oriented by religious leaders, landlords, and local businessmen while giving their votes. During the political campaign state bureaucracy and facilities of public agencies are used on behalf of governing party, distorting fair competition conditions between political parties. All these factors contribute to misappropriations of public revenues in provision of public goods and service.

6. The Size of The Goverment

According to principles of public economy, economic and social infrastructure such as rail transportation, health, education, social security and social services are mainly produced efficiently by the state. But this doesn’t

hold true in cases of misadministration, inefficient bureaucracy, waste in government and corruption. On the other hand the size of the government is very important in determination efficiency in resource allocation in public and private sectors. The share of the government in general economy or of the national income is less than 25% in Turkey, which is about the half of the EU countries. This is the reason why the length of state railways is seven times shorter that in European average. On the other hand, public sector in Turkey is downsized by means of privatization and deregulation process, leading to inefficiencies in both public and private sectors.

7. Many Ministries

There are 25 Ministry in Turkey for the time being, whereas EU average is around 12, which can be considered to be optimal number. Having too many ministries resulted in misadministration problems such as very big bureaucracy, duplicating of services and political implications. Duplication of services occurs when the same service is performed by the another ministry or governmental agency resulting in waste and inefficiencies in public spending. As in the case of Ministry of Education, there are many ministries and their agencies such as Ministry of Culture, Ministry of Youth and Sports and too many General Directorship performing the somewhat the similar educational services. For instance there are 15 administrations dealing with traffic problems, most of them feel themselves irresponsible of doing their task, thinking of that the other administrations may concern about.

8. Waste

In addition to many ministries there are more than 150 governmental agencies, most of them are providing the similar services, opposing to principles of economics of scope and economics of scale. According to a study undertaken by Turkish Chamber of Commerce (TOBB) these type of waste reached to 110 billion liras in 1990s. Luxury administrative buildings, cars, foreign country trips, and red type expenses are the examples of wastes increasing year by year. In addition to these, very costly projects such as 3rd Bridge and 3rd AirPort increase waste in public sector.

9. Education

The quality of education is the most important factor generating huge positive externalities, which reduces the cost of production in market

economy and increases the welfare of the society. Although educational expenditures are increasing in Turkey, but quality of education is decreasing as released by PISA. Opposing to the scientific and secular education, increasing tendency of religious education also plays negative effects on political decision making process in Turkey.

10. Transportation

There are too many cases showing inefficiencies in public and private transportation in Turkey. Firstly, more than 95% of the transportation services are undertaken by private companies generating too many negative externalities. These externalities take the form of high number of the people lost on highways, oil consumption increasing foreign trade deficit, agricultural area lost due to highways construction and corruption. Secondly, public transportation modes such as high speed trains, intercity trains, metros and municipality run buses are not sufficient enough to decrease the cost of production and prices. Thus, lacking of infrastructure of mass transportation also contributes to the cost push inflation problem in Turkey.

11. Corruption

Corruption not only distorts the social and political value judgments of the society, but also reduces the efficiency in both public and market economy. It also undermines justice and economic development and destroys the democracy. Transparency International releases Corruption Perception Index (CPI) measuring the perceived levels of public sector corruption in countries worldwide. Countries are scored from 0 (highly corrupted) to 100 (very clean). Those countries scoring less than 50 out of 100 are perceived to have a very serious corruption problem discourages the entrance of foreign direct investments. Turkey's ranking is 53 with a country score of 50 among the 177 countries, according to CPI 2013. However, corruption perception index of Turkey increased to 64 in 2014.

12. Privatization

Most of the state economic enterprises and strategic public firms have been sold to private companies at very low prices. In addition to state economic enterprises and state firms, entrance to public parks and beaches also privatized after 2000s. Unfortunately, privatization process in Turkey

didn't help to increase the efficiency in market economy. Because, most of the privatized firms became rent seekers, and they invested on housing rather than producing basic goods. Then, prices of goods increased and quantity produced decreased, while the number of the people employed reduced, as the result of privatization process. Another tendency is the salaries of the managers increased at the expense of decreasing wages of employees, because it is less costly to employ workers under term contracts. Privatization also increased the inefficiencies in public economy. Government finances foreign debt service (principal and interest) through privatization revenues, leading to heavy increase in external public debt. Although, privatization revenues increased 60 billion dollars so far, at the expense of increasing public debt from 129 billion dollars in 2002 to 400 billion dollars in 2015.

13. Deregulation

In Turkey public services such as health, education, transportation and too many governmental agencies have been deregulated since 1980s. Under the deregulation practice, government controls and regulations have been lifted and provision of public services are allowed to be undertaken by market firms. However, due to characteristics of public goods and services such as indivisibility, non exclusions and collective consumption market firms failed in provision, leading to inefficiencies in both market and public economies. To benefit from the consumer's surplus, market firms differentiated the quality of services according to purchasing power of the income groups. Fees of deregulated high schools, universities, housing and health services are increased too much enabling only high income people could benefit from these services. Thus, equal consumption and non exclusions characteristics of public goods are forgone. Besides these quality of deregulated bus and minibus (minibus) services are highly reduced, as compared to municipality run transportation means. All these deregulation practices not only caused inefficiencies in resource allocations but also contributed to unfair income distribution in Turkey.

14. Public Bads

Industrialization process in market economies resulted in many unwanted effects on welfare of the society. Water, air, noise, and other types of pollutions known as public bads, generated by the market firms adversely affect the well being of the consumers. Economic theory assumes that, those

public bads generated by the market firms are over produced from that of social optimum level leading to inefficiencies in resource allocations.

15. Merit Goods

In Western states there are some socialized private goods and services whose consumption is accepted very beneficial for the society (Musgrave, 1958). Examples of these goods include free entrance to Museums, baby milks, scholarships, classical music concerts given in parks to public and public transportation passes. These meritorious goods and services are not provided by the markets leading to inefficiencies in resource allocations as to welfare of society is concerned.

V. INEFFICIENCES IN MARKET ECONOMY

Existence of imperfectly competitive conditions in the market mechanism causes important distortions from the perfectly competition conditions. These imperfections lead to inefficiency in resource allocation in market economy. Imperfect competitiveness is the result of specific production conditions and monopolistic tendencies in market economy. State intervenes with the market economy in order to protect the society from the underproduction and higher prices that the monopolies exert. In order to restore the efficiency in resource allocation in market economy, state corrects the imperfections by making use of following instruments where the market firms are not efficient.

1. Imperfect Competition

There are many cases in market economy such as monopoly and oligopolies causing inefficiencies in the form of higher prices and lower quantities produced. They also distort the competitiveness conditions among the firms. Monopolies and oligopolies organized in the form of big business, can easily exert their influences on political decision making process and on bureaucrats.

2. Asymmetric Information

Markets are not that efficient in giving proper information about the price setting of the goods as neoclassical economics suggested (Cullis-Jones, 1992). Because, sellers of the goods have more knowledge than that of the consumers, as heterodox economists argued. As in the case of prescriptions of

medicines and technical materials consumers can't easily access to the proper information, leading to inefficiencies in resource allocations.

3. Unfair Income Distribution

Market mechanism generally leads to unfair income distribution if otherwise controlled by government. As long as the income distribution becomes unfair, then market mechanism doesn't work efficiently. Because, unfair income distribution result in lack of demand for the goods mainly consumed by low income families, which in turn reduced the welfare of the society. Deregulation and privatization policies undertaken by the government resulted in serious income distribution problem in Turkey.

4. Rent Seeking

As in metropolitan cities, many firms invest on such sectors producing high level of profits. Due to political connections with governmental agencies, firms are mostly investing in housing industry yielding significant city rents. Since its ratio to national income is too low in Turkey, scarce savings are spent on unproductive housing sector, that contributes increasing unemployment and inefficiency in resource allocation in the long run.

5. Campaign Finance

During the general and municipality elections many big firms support the political parties to benefit from tax incentives and tax loopholes (Buchanan, 1967). They especially give support to governing party by providing transportation means and food to be distributes to the voters in election meetings. Thus, this companies are given priorities during the privatization and deregulation process.

6. Social Housing

The aim of the social housing in EU countries is to provide affordable houses to low income families. Social houses are owned by the state or non profit organizations amounts more than 50% of the national housing stock in these countries. Unlike in Turkey, they are not sold to low income families, but they are rented at low prices. The aim of the social housing is to improve income distribution, through increasing the real income of the low income families. Whereas, housing projects of government in Turkey, is likely to distort the fairness in income distribution. Because, both private and governmental

housing administrations are producing luxury houses, to benefit from the generated city rents by the municipalities. Opposing to European social housing policy, market provision is supported by the government. A limited number of the social houses known as lojmans are rented at a lower rate to military and government officials. Politicians implicitly allow immigrant families to construct squatter houses (gecekondus) around the big cities. Besides this, a Housing Development Agency (TOKİ), provides luxury houses and thus generating huge city rents and sell the houses to low income families.

7. State Control of Ceiling and Floor Pricing

In order to protect the farmers from the sensitive prices of crops to demand, government applies floor prices. However, government uses agricultural pricing policies to increase the votes. But, this policy result in overproduction of supported crop at the expense of its substitutes, leading to inefficiencies in agriculture.

8. Antitrust Laws

Market mechanism generates monopolies, oligopolies and cartels causing inefficiencies in the form of charging higher prices and lower quantities than the social output level. To cope with the distortions from the efficient resource allocation, western government controls monopolistic tendencies by imposing antitrust laws and regulatory measures.

9. Decreasing Costs

Economics of scale and scope economies enables firms to produce goods at lower costs and higher quantities, improving the efficiency in resource allocation. According to economic theory, cost minimization in production calls for providing goods and services only by big firm or a monopoly. But market monopolies try to maximize profits, thus disregarding cost minimization. This is the main reason of establishment of natural monopolies and state economic enterprises, to provide and produce necessities and to charge social prices lower than market prices.

10. Marginal Costiszero Case

Suppose that a dam is constructed to produce water, however if it is possible to produce electricity at the same time, through a generator whose cost is negligible in long term. Thus, the electricity whose provision dependent

on another good is produced at zero marginal cost. Efficiency in resource allocation called for, under marginal cost is zero production conditions, the price of electricity must be zero. Although, private firms never apply zero prices, state can provide to many public goods at free of charge.

11. Positive Externalities

As in the example of a good quality education have many effects in the forms of increase in productivity, improvement in democracy, decrease in crime rates etc. When these positive externalities occur, market firms are likely to produce less than the optimal level of social output and charges higher prices. In order to internalize the social benefits, government provides subsidy to the firms to correct the potential positive externalities.

12. Negative Externalities

Industrialization gives rise to generating environmental problems such as water, noise and air pollutions, known as negative externalities. In cases of negative externalities, market firms are likely to produce more than the optimal level of the social output. In order to internalize the social costs, government imposes sumptuary or corrective taxes and takes regulatory measures, to restore efficiency conditions in markets.

13. Advertisement

Some advertisements made by the firms give wrong information about the quality of the goods and services, leading to misuse of scarce resources by the market mechanism. False advertisements also distorts fair competition conditions among the firms. Advertisements creates new preferences to the those goods, leading to conspicuous consumption motivation. For instance, important part of the family budget is spent on smart phones by the low income families in Turkey. Thus, scarce resources are spent on brand goods and luxury goods distorting the efficiency. To protect the consumers and to restore the fair competition conditions, state controls market through it’s regulatory agencies.

CONCLUSION

All international statistics such as Legatum, Human Development (HDI) and OECD and Corruption Perception released that, Turkish private and public economies are bound to serious inefficiencies in resources. To cope

with those inefficiencies stated above, economic, social and political reforms must be undertaken. Followings are my suggestions to cope with the inefficiencies that I tried to emphasize in this paper.

Firstly, all laws concerning with political, economic and social life must be lifted. In doing so, political parties are not allowed to exploit national and religious feelings of the citizens. Election law should be design in such a way, so that over and under representation problems would not occur. This calls for lifting the 10 percent election threshold. As to public administration is concerned; bribery corruption, red tape, spoil system, nepotism and other misadministrative behaviors of bureaucrats, politicians and political siders should be banned.

Secondly, monopolistic and oligopolistic tendencies in market economy should be taken under control. Those public firm, state economic enterprises and public utilities generating important positive externalities should be nationalized. By doing so, efficiency in public and private sectors will be restored. Teaching philosophy should based on secular and scientific grounds at compulsory education level. Courses like accounting and basic economics should be introduced to high schools.

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KAMU KÜLFETLERİ KARŞISINDA EŞİTLİK İLKESİ*

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ÖZ

İdarenin kusursuz sorumluluğunun dayandığı ilkelerden bir tanesi, kamu külfetleri karşısında eşitlik ilkesidir. Buna göre, idarenin sunduğu hizmetlerden herkes faydalanmasına rağmen, bazı kişiler bu hizmetler dolayısıyla özel ve ağır bir zarara katlanmak zorunda kalırlar. Adalet ve hakkaniyet ilkeleri gereğince idarenin bir kusuru olmasa da bu kişilerin gördükleri zararların tazmin edilmesi gerekir. İdarenin kusursuz sorumluluk ilkelerinden bir diğeri de tehlike ilkesidir. Danıştay kararlarında bazen tehlike ilkesinin uygulanması gereken durumlarda kamu külfetleri karşısında eşitlik ilkesinin uygulandığını görmekteyiz. Tehlike ilkesi, kaza veya buna benzer hizmetin olağan akışının dışında gerçekleşen olaylar için kullanılmalıdır. Kamu külfetleri karşısında eşitlik ilkesi ise tam tersine, hizmetin olağan akışı sonunda ortaya çıkan zararlar için kullanılmalıdır.

Anahtar Kelimeler: Kusursuz Sorumluluk, Kamu Külfetleri Karşısında Eşitlik İlkesi, Adalet, Hakkaniyet, Olağanüstü Zarar.

THE PRINCIPLE OF EQUALITY BEFORE PUBLIC BURDENS

ABSTRACT

The principle of equality before public burdens is one of the principle of the administration's flawless liability. Accordingly, even though everyone to benefit from the services offered by the administration, some people are forced to endure a heavy and special damage. Not the fault of the administration in accordance with the principles of justice and equity must also be compensated fod damage if they have. Another of the principle of administration's flawless liability is risk. In Danıştay's decisions sometimes be applied the principle of equality before public burdens instead of risk.

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