# INTERNAL FINANCING OF ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES AND IN TURKEY

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Economic development today is widely accepted as a major goal of national policy, both in the developed countries as well as the developing countries. The essence of economic development in a country consists in the growth of output per head of population. In developing countries, the growth of output is not the only goal of economic policy but policies to raise the rate of output growth from the major part of most countries development plans. Because growth is seen as a necessary condition for an improvement in the welfare and precondition for the achievement of other development objectives such as the provision of greater employment opportunity, the redistribution of income and the provision of social capital (1).

The economic development of a developing country is influenced by political, social and cultural factors. Economic analysis alone can not provide full explanation of the process of development. Indeed, the state of development of social, political and eco-

(1) See A.P. THİRLWALL, Financing Economic Development, Macmillan, New York, 1976, p-11.

nomic institutions, the supply of natural resources, the growth of scientific and technological knowledge and cultural, social values and attitudes of the peoples have a strong effect on the process of development of an economy. Economic development has much to do with human endowments, social attitudies, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress (2).

However, from the point of view of economic analysis, the most important factors determinig the process of economic development appear to be (i) the proportion of a community's income devoted to savings and capital formations and (ii) the rate of growth of population vis-a-vis the rate of growth of output.

As it is known, from the point of economic development, the dilemma facing the developing countries can be summarized as (i) in developing countries, import of private capital which would not be reflected in government budgets is stagnant, (ii) voluntary saving and accumulation of capital proceeds at a very slow rate, because of the fact that most of the peoples live at or below the subsistence level, and their propensity to save is low, (iii) a considerable proportion of the capital formation which takes place is either exported or hoarded, or is invested in real estate, gold, etc. and the investment of accumulated capital in productive enterprises in these countries is rather limited and (iv) inflation is an ineffective and wasteful device for accelerated capital formation and forced saving (3).

Under these conditions, in the developing countries, governments which are obliged to play an increasingly important role in accelerating development, most attract state and international assistance and channel it through government budgets. Also governments must accelerate forced saving through high taxation in order to increase capital formation.

Developing countries are able to finance their economic development by different sources. Real resources for financing econo-

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(2) See R. NURKSE, Problem of Capital Formation in Underdeveloped Countries, Basil Blackwell, Oxford, 1953, p.1.

(3) See D. HOROWITZ, «Government Expenditure in Countries of Accelerated Growth», in Goverment Finance and Economic Development, (eds. Alan T. PEACOCK and Gerald HAUSER), OECD, Paris, 1965, p.59.

mic development come from two main sources. Internal finance and external finance. In the former, the goverment draws on its saving. In the latter, the goverment draws on the savings of others. Within the context of internal and external finance, the major sources of development finance in developing countries are (i) current tax revenues, (ii) savings, (iii) borrowing and (iv) foreign aid. Internal and external finance of economic growth in developing countries assumes many forms. The relative desirability of particular methods of financing economic development, their effects and the technique of applying them vary videly from country to country, according to existing intstitutions, customs and habits, the stage of development reached and the objectives sought.

Despite one of the sources of financing economic development is external finance, internal finance is vital to the development and require a special policy, since by maximizing the mobilization of internal finance the dependence on external finance can be greatly reduced. A developing country which can manage its development without some form of external borrowing or grants is lucky. For that reason our main concern in this study is to examine the sources of internal financing of economic development in developing countries, using a case study of Turkey.

For a country, the main sources of internal finance are (i) current tax revenues, (ii) domestic savings and (iii) domestic borrowing. We will now survey each of these sources with in the framework of the development process.

## TAX REVENUES

Taxation is by far the most important source of development finance, both for the direct contribution which it can make and for its indirect effects on control and incentive and in narrowing the gap in available incomes. Thus tax policy in the developing countries should be strong. Bu it is not easy to increase tax collections in these countries. Except for these countries blessed with valuable natural resource endownments, developing countries in general would not be expected to have tax ratios nearly as high as is common in the developed countries, if for no other reason than their much lower per capita incomes, which allow a much smaller

marjin for taxation after subsistence needs are met (4). The ratio of tax revenue to GNP in the developed countries is normally of the order of at least 30 percent while in most of the developing countries it is just half of that (5). Despite the difficulties involved, many developing countries have been able to raise shares of taxes in GNP since 1960's (6).

When we examine the literature on tax structure in developing countries, it is found that the tax system must transfer resources from the private to the public sector so that the public sector will have the capability of carrying out those fuctions which are basic to the role of government as well as those related to the development of the countries (7). The tax system must also induce a transfer of resources within the private sector away from low priority toward high priority uses. Taxes put resources in the hands of governments and these resources can be channeled into certain invesments without, in the process, destroying or gravely restricting its occurrence (8).

We'll now examine the principal sources of public tax revenues -direct and indirect- in developing countries and in Turkey.

As it is known, indirect taxes in developing countries tend to work positively, for the most part, by encouraging savings and conserving foreign exchance for the necessary import of capital goods. Such taxes also help to prevent prices from rising too rapidly when ongoing investment is increasing personal incomes faster than the

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(4) See M. GILLIS, D.H. PERKINS, M. ROEMER and D.R. SNODGRASS, Economics of Development, Second Edition, W.W. Norton and Company Inc, New York, 1987, s. 263.

(5) See R.J. CHELLIAH, «Trends in Taxation in Developing Countries», International Monetary Fund Staff Papers, Volume 18, July 1971, pp. 254-327.

(6) Whereas the ratio of taxes to GDP in 1983 in the twenty-one member countries of OECD averaged about 29 percent (see International Monetary Fund, Government Finance Statistics Yearbook 1985, Washington D.C. IMF, 1985), typical tax ratios in developing countries increased to 17.5 percent in more recent years (see M. GILLIS, D.H. PERKINS, M. ROEMER and D.R. SNOOGRASS, p. 264).

(7) See Vito TANZİ, «The Theory of Tax Structure Development and the Design of Tax Structure Policy for Industrialization» in Fiscal Policy for Industrialization in Latin America (ed. David T. GEITHMAN), University of Florida Press, Gainesville, 1974, p. 50.

(8) See R.J. CHELLIAH, «Fiscal Policy in Underdeveloped Countries» in Readings on Taxation in Developing Countries, 2. ed, (ed.R.M. BIRD and O. OLDMAN) Johns Hopkins Press, Baltimore, 1967, p. 43.

output of finished goods and services is rising. These taxes are popular in these countries, because of their administrative simplicity. One additional property of indirect taxes of particular interest to developing countries is their ability to allocate resources to desired areas of development. But one of the greatest weaknesses of indirect taxes in the developing countries is their inability to reach high concentrations of income and wealth as effectively as direct taxes. To that extend indirect taxes can be regarded as regressive. Under the ability to pay principle taxes should bear some relationship to people's capacity to pay them (horizontal and vertical equity). Historically, however, indirect taxes, by their very nature, have never been able to completely satisfy these two equities in both developed and developing countries.

Direct taxes -those levied on private individuals, corporations and property- or more specifically, income taxation is a very convenient device for introducing the principle of aquity in tax structure. Due to its capacity to introduce an element of built -in flexibility in the tax structure, it is regarded even in developed countries as a very important counter- cyclical device for achieving economic stabilization. Thus in the analysis of taxation in developing countries, the traditional objectives of progressivity and equity in taxation have pointed strongly to more aggresive use of net income and wealth taxation. Through a highly progressive income tax with high marjinal rates on upper income ranges is a very desirable fiscal instrument both on grounds of resource mobilization for the public sector and in redistributive considerations which are very important in developing contries, it tends to conflict with the criteria of economic efficiency and progress in a context where the growth of savings and investment occupies an important place in the process of economic development (9).

Tax revenues represent the major proportion of all revenues collected in Turkey by the Central Government. For example, current tax revenues in Turkey were 85.3 percent of current budget revenue in 1983 and 90.1 percent in 1986 (10). Taxes, therefore, constitute an important part of the public finances of the Turkish eco-

(9) See K.R. HOPE, Development Policy in Guyana: Planning, Finance and Administration, Westview Press, Boulder, 1979, p. 164.

(10) See, 1988 Budget Justification, Ministry of Finance and Customs, Ankara, 1988, p. 69.

nomy and as such a very important fiscal tool. The significance of tax revenue in Turkey can also be determined by examining the ratio of tax revenues to GDP. Tax revenues averaged 17.7 percent of GDP in Turkey during the period 1978-87 (11). As mentioned before, in more recent years, the average tax ratio in developing countries was 17.5 percent. According to this, the tax ratio in Turkey are almost the same with the average in developing countries. When we examine the coefficient of income elasticity of tax revenue in our country we can see that, the coefficient of income elasticity of tax revenue was 1.0 in 1978, 0.8 in 1980, 0.7 in 1983, 0.4 in 1984, 1.2 in 1985, 1.4 in 1986 and 1.2 in 1987 (12).

According to this, for the period 1978-1987, there is a considerable variation in the elasticity coefficients for the tax revenues in Turkey. Despite this the coefficients in the last years show that the income elasticity of tax revenue in Turkey has been increasing (13).

Table I shows the changes in the components of general government tax revenues (as indirect and direct taxes) during the period 1978-1987.

TABLE I

Share of Taxes in General Government Tax Revenues

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct taxes, total | 57.5 | 58.2 | 62.7 | 64.5 | 60.4 | 58.6 | 58.2 | 47.7 | 52.0 | 49.6 |
| of which : | | | | | | | | | | |
| Taxes on income | 56.6 | 57.5 | 61.8 | 62.7 | 58.7 | 56.6 | 56.5 | 46.3 | 51.1 | 48.9 |
| Wealth tax | 0.9 | 0.7 | 0.9 | 1.8 | 1.7 | 2.0 | 1.7 | 1.4 | 0.9 | 0.7 |
| Indirect taxes, total | 42.5 | 41.8 | 37.3 | 35.5 | 34.9 | 39.2 | 41.0 | 48.1 | 47.6 | 50.2 |
| of which : | | | | | | | | | | |
| Taxes on goods on services | 25.2 | 25.2 | 27.5 | 25.9 | 24.5 | 26.9 | 25.4 | 28.7 | 31.0 | 30.6 |
| Taxes on foreign trade | 17.3 | 16.6 | 9.8 | 9.6 | 10.4 | 12.3 | 15.6 | 19.4 | 19.6 | 19.6 |
| Revenue from abolished taxes | — | — | — | — | 4.7 | 2.2 | 0.8 | 4.2 | 0.4 | 0.2 |

Source : 1987 Annual Economic Report, Ministry of Finance and Customs, p. 73.

(11) See, 1987 Annual Economic Report, Ministry of Finance and Customs, p. 86.
(12) See, 1987 Annual Economic Report, Ministry of Finance and Customs, p. 86.
(13) As it is known when the elasticity coefficient is greater than one, taxes are considered to be elastic and they are regarded as inelastic, if the coefficient is less than one.

As seen in Table I, in Turkey, the direct taxes constituted the major component of total tax revenues during the period 1978-1981. After this period, direct taxes declined in importance and it became 49.6 percent of tax revenues in 1987 (14). The most important reason of the increase in income tax has been due to inflation. Over the 1970's the World Bank estimated that «bracket creep» ie, the result of inflation raising nominal income and pushing tax payers into a higher income bracket raised the income tax burden by 20 percent (15). In Turkey taxes on income (personal and corporate) have consistently dominated the direct taxes during 1978-87. However, the changes in this component of the direct taxes have been inconsistent. For example, as seen in Table I, the taxes on income were 56.6 percent in 1978, 62.7 percent in 1981 and 48.9 percent in 1987.

In contrast to the direct taxes, indirect taxes started to increase after 1983 and became the major component of total tax revenues in 1987. For example, indirect taxes were 48.1 percent in 1985, 47.6 percent in 1986 and 50.2 percent in 1987. The reason for this was Value Added Tax which enacted in recent years in Turkey. Regarding the composition of indirect taxes, Table I shows, that the taxes on goods and services constitute by far the most important form of indirect tax revenue. However in Turkey the rate of change of these taxes has been uneven and inconsistent.

## DOMESTIC SAVINGS

In developing countries most of the studies on saving has been concerned primarily with the determinants and nature of the sa-

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(14) Typically, dirext taxes make up from 20 to 40 percent of total tax revenue for most developing countries. It is indirect taxes such as import and export duties, as well as excise taxes, that compromise the major source of fiscal revenue-i.e, from 56 to 85 percent of total tax revenue (see M.P. TODARO, Economic Development in the Third World, Third Edition, Longman Inc., New York, 1985, p. 509). Taxes on income and profits and social security contributions are more important in developed countries than in developing countries and there are also important differences within these countries; conversely domestic taxes on goods and services and taxes on international trade are more important for the developing countries. For example, in developed countries, direct tax revenues (including social security contributions) as a ratio of total tax revenue are 74 percent, and indirect tax revenues as a ratio of total tax revenue are 18 (see A.R. PREST, Public Finance in Developing Countries, Third Edition, St. Martin's Press, New York, 1985, p. 21).

(15) See, Don AYRES and T.C. THOMPSON, Turkey, A New Era, Euromoney Publications, London, 1987, p. 70.

vings function as well as the role and impact of domestic savings in the development process. The rate of savings, historically, has been regarded as a key performance indicator in the development process and developing countries have always been encouraged to increase their saving ratio as a necessary step for achieving economic growth. Increases in the savings ratio were, naturally, expected to lend to a reduction in dependence for foreing aid by the developing countries.

In recent years mobilization of savings become a frequent recommendation for growth processes. Without it there can be no acceleration of the pace of growth. It is usually considered as a prerequisite for the realization of investment programmes and for balance of payments policies. In fact, an increase in the saving investment rate is one of the conditions of economic progress in the developing countries. Most of these countries have accepted the goal of a mixed economy and are seeking means of increasing savings and capital formation in both the public and private sectors. Even to countries which have assigned greater role to the government in financing development, the role of private savings can not be minimized (16).

As it is known, for a country, the total supply of available savings is simply the sum of domestic savings and foreign savings. Domestic savings defined as the sum total of all savings in all sectors for any given country. Domestic savings may be broken down into two components, (i) government savings and (ii) private domestic savings. Government savings consists primarly of budgetary savings that arises from any excess of government revenues over government consumption (17). Private domestic savings also arise from two sources, (i) corporate savings and (ii) household savings. The magnitude of savings in each of the components of domestic savings is dicetly affected by government policies (18). Foreign savings also can divided into (i) official foreign savings or

(16) See Richard GOODE, «Taxation of Savings and Consumption in Underdeveloped Countries, in Readings of Taxation in Developing Countries (ed., M. BIRD and Oliver OLDMAN), John Hopkins Press, Baltimore, 1967, p. 231.

(17) In some countries savings of goverment-owned enterprises have also contributed to government savings.

(18) Jean van der MENSBRUGGHE, «Domestic Savings in Developing Countries», Finance and Development, Volume 9, March 1972, pp. 36-39.

foreign aid and (ii) private foreign savings. In this part of our study only domestic savings will be examined.

In domestic savings government savings has assumed growing importance as a source of development finance in developing countries. During the past two decates public investment has increased nearly everywhere and the expectations that public sector savings will assist in financing future public investment is evidenced in most of the development plans. However, the importance of raising the rate of private saving for financing development is also obvious. But growth in private savings is inherently constrained by such factors as low per-capita incomes (19) and high private consumption propensities among wealthy families with the greatest capacity for savings. Limited availabilities of foreign savings also stress the necessity of programs for mobilizing government savings. Preferred means for achieving this goal is to raise the tax ratio. Underlying this view is a belief that the propensity to consume out of an additional dollar of income is substantially less in the public sector than in the private sector. In this view diversion of income to the government should increase national savings rates (20).

While tax rations in developing countries typically rose marjinally over the 1960's and through the 1970's, public sector consumption expenditures expanded at rapid rates over the same period, generally in excess of GDP growth. Nevertheless, rapid growth in public sector consumption in the 1960's and 1970's, coupled with only moderate increases in tax rations, has meant that growth in government savings has not been a major source of investment finance in most developing countries.

Until guite recently, economics tended to view private domestic savings as decidedly secondary to government savings and foreign aid as a source of development finance. There is however, some evidence that in many developing countries private savings have come to play a major role in supporting capital formation (21).

Table 2 shows the gross national saving of Turkey as a percentage of GNP during the period 1965-1985. From Table 2, we can

(19) See R.N. TRIPATHY, Public Finance in Underdeveloped Countries, World Press Private Limited, Calcutta, 1964, p. 8.
(20) See M. GILLIS, D.H. PERKINS, M. ROEMER and D.R. SNODGRASS, p. 263.
(21) See, World Bank, World Development Report 1985, Oxford University Press, New York, 1985, pp. 176-177 and 180-183.

see that gross national savings as a percentage of GNP declined consistently during this period.

TABLE 2

Gross National Savings/GNP

| | 1965-73 | 1973-80 | 1980-85 |
|---|---|---|---|
| TURKEY | 19.1 | 18.1 | 17.2 |

Source : World Bank, World Development Report 1987, Oxford University Press, New York 1987, p. 177.

When we compare this data with the data in Table 3 which shows the gross domestic saving as a percentage of GDP in developing countries, it can be seen that the saving ratio in Turkey is smaller than the savings ratio in developing countries.

TABLE 3

Gross Domestic Savings/GDP

| | 1965 | 1973 | 1980 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|---|---|
| Developing Countries | 20.2 | 24.2 | 25.1 | 22.9 | 24.2 | 24.5 | 24.6 |

Source : World Bank, World Development Report 1987, Oxford University Press, New York, 1987, p. 174.

In sum, it is generally agreed that the pace of economic development is associated with, among other things, the growth of savings. The amount of available savings is affected, in part, by the distribution of incomes in the deveoping countries where there is significant low income. Apart from the fact that, in developing countries the savings may be low simply because incomes is low, insufficient savings may reflect not an absence of willingness to save, but a lack of suitable investment opportunities, or an inability to earn sufficient foreign exchange. It is clear that some broad observations can be made with regard to domestic savings in the development finance. One general conclusion that emerges is that aggregate savings is a function of a number of interdependent va-

riables which together with savings propensities determine the course of economic development. Secondly, maintenance of high investment levels is largely a function of domestic savings performance. Thirdly, the domestic savings rate is positivelly related to the level of income and its growth rate. Finally, the mobilization of savings is an of the most important roles of government in the process of development. However, increasing domestic sayings may often be politically difficult. Since taxes are never popular, those government may find it difficult to raise tax rates, introduce new taxes. However, in general, it may be necessary to influence savings with respect to size as well as composition. This requires optimum use of the existing financial institutions.

## DOMESTIC BORROWING

In recent years borrowing has come to occupy a significant place in the national budget of both the developed and developing countries. Its importance has risen because of the fact that the entire funds needed for development cannot be met by taxation alone. In other words, it is because of the limited availability of financial resources, on the one hand, and the increasing need of public investment for development, on the other hand, the role of public borrowing in financing economic development has come to occupy a significant role in the fiscal policies of the developing countries.

Whereas taxation constitutes a method of forced savings, public borrowing is a device to utilize a substantial part of voluntary savings for financing the development plan of the public sector and functions as an instrument of resource mobilization. The issue, therefore is one of reducing the resource gap. This can only be done by increasing the level of domestic savings on reducing the rate of growth of private and government consumption.

Public borrowing does some advantages, however. It generates additional productive capaticy in the economy which would not have been possible in its absence. To the extend that it is used as an instrument to mobilize savings, which would otherwise have gone into non-productive activity, it becomes a positive instrument of economic growth.

As it is krown the question of resording to public debt arises when expenditure exceeds revenue. When the expenditure is above the revenue available to the government from taxation or other sources like income from state enterprises a deficit arises in the budget. This deficit can be financed by raising the revenue through taxation. However, there is a limit beyond which raising revenue through taxation adversely effects the rate of savings, investment, production and economic growth (22). Thus, the deficit in the budget can either by met by deficit financing or by public borrowing or both.

The method of financing the deficit by creation of new money may be inevitable under certain conditions, such as for meeting a short-term and sudden increase in public experditure. But resort to this method on a large scale over a long period has an inflationary effect on the economy. From the long term view point of maintaining stable economic conditions and of equitably distributing the burdens of economic development the goverment, prefer the method of financing economic development through debt. There is no denying the fact that if deficit financing has to be kept within limits, borrowing needs to be increased for financing development. But opportunities for government domestic borrowing from households and firms are severely limited in most developing countries. Several factors account for this. Personal savings may be smaller in relation to income than in the developed countries. More important, in the developing countries, the habits and preferences of the people dispose them to put their savings in land, gold or foreign balances. Recently, the inflation in these countries, together with wide fluctuations in nominal interest rates, has damaged the market for government bonds. Despite such difficulties, several developing countries have obtained substantial amounts of financing by domestic borrowing from nonbank lenders (23).

On the average, central government debt is smaller in relation to GDP in the developing countries than in the developed count-

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(22) In fact, the situation of developing countries is even worse as their low level of incomes and savings provides limited scope for higher taxation. Much more there are certain administrative, economic and political difficulties in adapting a policy of continuous rise in taxation (see Dirk J. WOLFSON, Public Finance and Development Strategy, The Johns Hopkins University Press, London, 1979, pp. 126-129).

(23) See Richard GOODE, Government Finance in Developing Countries, The Brookings Institution, Washington, D.C., 1984, p. 198.

ries. The datas confirm the expectations that the domestic debt is a smaller fraction of total debt in the developing countries and that a smaller fraction of the domestic debt is in the hands of non-bank holders. However, there are wide differences among countries.

Table 4 exhibits the domestic debts of Turkey for the period 1979-1987. Domestic debts are composed primarily of debts repayable from treasury and treasury quaranteed as shown in this table. From Table 4, we can see that the consolidated debts were the major component of debts repayable from treasury.

TABLE 4
Domestic Debts (Billion TL)

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|
| Domestic Debts total of which: | 452 | 810 | 1.099 | 1.435 | 3.201 | 4.223 | 6.450 | 9.871 | 12.270 |
| Debts repayable from treasury | 229 | 526 | 757 | 1.075 | 2.838 | 4.111 | 6.183 | 9.468 | 11.595 |
| Borrowings | 94 | 138 | 158 | 185 | 360 | 531 | 1.032 | 1.511 | 2.407 |
| Consolidated debts | 123 | 336 | 509 | 736 | 2.422 | 3.240 | 4.661 | 7.134 | 7.265 |
| Savings bonds | 3 | 3 | 2 | 1 | — | — | — | — | — |
| Treasury bills | 9 | 49 | 88 | 153 | 56 | 340 | 490 | 823 | 1.923 |
| Treasury guaranteed | 223 | 284 | 342 | 360 | 363 | 112 | 267 | 403 | 675 |

Source : 1988 Budget Justification, Ministry of Finance and Customs, Ankara, 1988 p. 111

In Turkey, domestic debts as a percentage of GNP are shown in Table 5, From this table, it can be seen that, domestic debts averaged about 21 parcent of GNP in Turkey during 1979-1987 and domestic debts as a percentage of GNP were uneven and inconsistent during the same period.

TABLE 5
Domestic Debts/GNP

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|
| Domestic Debts total of which | 21 | 18 | 17 | 16 | 28 | 23 | 23 | 25 | 22 |
| Debts repayable from treasury | 10 | 12 | 12 | 12 | 25 | 22 | 22 | 24 | 21 |
| Treasury guaranteed | 10 | 0.6 | 0.5 | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 |

Source : 1988 Budget Justification, Ministry of Finance and Customs, Ankara 1988, u. 111.

## CONCLUSION

As it is known the developing countries striving for an accelerated growth are confronted, first of all, with the problem of investment and availability of capital for such investment. Thus, one of the central problems for these countries has been to find capital investment for accelerated economic growth. One of the sources of such capital investment is the flow of capital from outside both from developed countries and international financial institutions. However, the crucial problem for the developing countries is their own formation of capital.

The process of voluntary formation of capital in an economy run on the basis of a multiplicity of private decisions of employers, factory owners and others, is made even more difficult by the increasing pressure of population growth. Thus to accelerate growth, the developing countries are compelled to resort to forced savings through taxation-the most effective instrument for that purpose.

Indeed, taxation is by far the most important source of development finance, both for the direct contribution which it can make, and for its indirect effects on control and incentive and in narrowing the gap in available incomes. Thus, as a fiscal tool, taxation has to aim at directing productive resources to uses which are necessary for development but which the private sector is unwilling to provide for, as in the case in Turkey, The tax structure of the developing countries most be reviewed periodically. The relative importance of various taxes in the tax system must be changed periodically to keep pace with the changing facets of the economy. There is a need for periodic change in the tax administration and tax laws. The aim should always be for a tax structure that will be adequate, flexible, and harmonious with the emerging patterns of economic activity.

Given the level and composition of tax revenues, the tax system in Turkey need only be directed increasingly toward meeting the long-term needs of development. This implies a tax system with more administrative flexibility, one where incidence can be rationalized and one which can be used as a means of controlling inflation-a major problem in Turkey. One of the major objectives of taxation in Ttrkey should be that of mobilization of internal resources to meet development financing requirements.

Mobilization of savings has in the most studies related to economic development become a frequent recommendation for growth processes. Savings magnitude determine the extent of foreign financing required. As such, increasing the rate of domestic savings is considered to be of first importance in most discussions of economic development. However, there is widespread feeling that much saving in less developed countries is not being channeled in the right direction. Instead, it is being invested to yield a future income stream. Emphasis is there fore placed on mobilizing domestic savings, which cannotes both an increase in the domestic savings rate and the channeling of existing and new savings into uses that will increase the rate of economic growth. In Turkey, governments may achieve these objectives through the budgetary process, or may encourage the growth and proper use of savings by either fiscal or financial means.

The savings of Turkey central government has an important role to play in the accumulation of both total public sector savings and gross domestic savings .As it is known public savings has a dual role to play. On the one hand, it constitutes a convenient source of finance for public investment, on the other hand, it may serve to raise the rate of savings in the economy. In Turkey where private savings is clearly not sufficient to match the needs of development, public savings ondoubtedly assumes importance and it becomes necessary to reorient fiscal policy to generate sizable surpluses in the public sector. One of the primary objectives of fiscal policy in Turkey should be that of raising the ratio of saving to national income so that the rate of investment may be stepped up without the danger of inflation.

In recent years debt has come to occupy a significant place in the national budgets of the developing countries. Its importance has risen because of the fact that the entire funds needed for development cannot be met by taxation alone. Thus, if deficit financing has to be kept within limits because of its many adverse effects, borrowing needs to be increased for financing development. But public borrowing can mobilize an increasing volume of resources only when the rate of voluntary savings in the economy is progressively increasing. This means, therefore, an encouragement of voluntary savings. As such, one of the major tasks confronting the developing countries is to encourage and facilitate the economy's

monetization for the benefit of productive savings accumulation. The purpose of these efforts is to discourage unproductive hoarding of physical goods such as real estate, precious metals and so on. This, in turn, will reduce the persistance of a very narrow ownership structure of the domestic debt, as in the case in Turkey where for both the long-term and the short-term debt, ownership is concentrated among banks, financial institutions and govermental agencies. As it is known holdings by non-financial enterprises and by individuals are relatively minimal.

In sum, financing development in the developing countries is a very complex task. Capital necessary for economic development and funds for social development increasingly depend on the government. Because, it either provides the financial resources directly or encourages the flow of funds from internal or external sources through various compulsory of facilitative measures, including laws and regulations, quarantees, and other means. The major consensus that seems to appear in the literature on development finance is that the role of the government looms large. The government is responsible for the provision of incentives and the overall climate for mobilization of the resources required to finance the development program.