

PROBLEMS IN LOCAL GOVERNMENT FINANCE
IN
THE UNITED STATES AND TURKEY :
A COMPARATIVE STUDY

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Local governments in both the United States and Turkey have been beset with many financial problems during the post World War II period. These problems result from a complex combination of causes. Since these problems are so frequently embedded in the economic, political, and social environment, it is necessary to examine briefly this setting before attempting a comparison of the fiscal characteristics of local government in the two countries. In the light of these characteristics we will analyze the forces, both internal and external to each country, making for problems in local finance. Finally, the methods already attempted and the measures that might be instituted to help solve local financial problems in both countries will be discussed. (1)

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(1) Local government in the United States for the purpose of the paper includes: county, township, city, village, school district, and special district. In Turkey, local government includes: belediye (city) and köy (village). The vilayet (province) has been excluded, since the financial data presented by Mr. Ulkmen in answer to the questionnaire of the Union of local Authorities has excluded them. The vilayet has a popularly elected Council, but its governor is appointed by the Minister of Interior. Vilayets, however, have some independent sources of revenue and mention will be made of them whenever necessary.

ECONOMIC SOCIAL AND POLITICAL ENVIRONMENT

Turkey and the United States are marked by sharp contrasts in economic, political, and social environment. While the United States has a highly developed industrial economy, Turkey, in spite of its tremendous progress in recent years, is still an economically underdeveloped country. Its per capita gross national product was approximately \$260 in 1953. For the same year, the per capita gross national product in the United States was \$2,260, virtually nine times as large. Turkey is a predominantly agricultural economy; about 52 per cent of its national income arises in agriculture, and about 60 per cent of its labor force is engaged in agricultural pursuits. (2) Furthermore, a considerable part of its agricultural production, especially on smaller land holdings, is still carried on by rather primitive means. Moreover, until recently the rural areas of Turkey were characterized by a barter economy, each village providing for most of its own needs. Money has now found its way into most of these villages, but in many, especially in eastern Turkey, money is still a scarce commodity. This is in sharp contrast with the highly developed market economy that exists in the United States.

Politically, the United States has a federal form of government, while Turkey is a unitary state. This difference in the form of government in turn gives rise to differences in the organization of local government, as well as to differences in the allocation of governmental functions and revenue resources among the various levels of government. While the United States is steeped in democratic traditions, democratic government is a relatively new experience in Turkish life and Turkey is still experimenting with the development of its democratic institutions. In the United States local government has traditionally been the dynamic element in American society. In Turkey, the concept of democracy and the responsibilities and privileges under a democratic system of government are still foreign to a large segment of the population, especially in the rural areas. Although this year marks the 100th Anniversary of municipal government in Turkey, cities have been able to exercise little power politically and have had little experience in the science of administration. The same is true for the villages, which were recognized as autonomous government units after the founding of the Republic in

(2) In Turkey people over age seven are included in the labor force, while in the United States only people over age fourteen are included. Furthermore, many people listed as employed in agriculture are also engaged in other professions in the villages. If adjustments are made for these factors, the percentage would be approximately 50 per cent.

1923. In fact, the Village Law in Turkey has been so written that it can serve as a manual to train village officials in the techniques of public administration. Much still remains to be done in the field of local government administration.

Marked contrasts also exist in the social environment of the two countries. For centuries, under the Empire, the four social positions held in esteem were those of the soldier, the government administrator, the church official and the landowner. Commerce and industry were regarded as degrading and left to minority groups. Such a social environment was not conducive to economic progress. Furthermore, religious influences likewise tended to reinforce resistance to change, which was characteristic of Turkish life. The religion taught that man could do little to mold his own tomorrow. This fatalistic philosophy similarly acted as a deterrent to progress.

When Kemal Atatürk came to power, he attempted to clear away these obstacles to progress by means of a series of basic reforms. Although phenomenal strides have been made during the relatively short period since the introduction of these reforms, it will take many years before the traces of the customs, habits, and attitudes developed over centuries will disappear. This situation differs greatly from the condition in the United States where a premium has always been put on individual initiative and enterprise and where separation between Church and State was a recognized principle since the inception of the Republic.

With these contrasts in the political, economic, and social environment in mind, let us now turn our attention to the character of local finance in both countries.

CHARACTERISTICS OF FISCAL SYSTEMS

The latest available data on local finance in Turkey are for the year 1950. Any changes in the pattern of local government expenditures and receipts for the years 1950-1955 will have to be approximated on the basis of events in Turkey since that time. For the United States, the closest year to 1950 for which a functional breakdown was attainable was 1952. Aggregate data on revenue and expenditure were available for 1950 and have been used wherever possible.

Expenditures. Local government expenditures in both countries are a relatively small portion of total government expenditures. In the United States expenditures by all local government amounted to approximately 13 per cent of all government

expenditures. In Turkey local government expenditures (including vilayets) accounted for approximately 12 per cent of all government expenditures and 8 per cent when vilayets are excluded. These percentages, however, are overstated for Turkey. The government expends sums of money through various industrial holding companies like Sümerbank and Eti Bank, and conducts enterprises like the railroads, post office, telephone and telegraph. These expenditures do not appear in the budget of the central government. If these expenditures were known and could be included in the total of government expenditures, local government expenditures (including vilayets) would amount to no more than 3 or 4 per cent of government expenditures. Thus, in actuality the expenditures of local government in Turkey are relatively of less significance than those in the United States.

TABLE 1 (3)

Functional Distribution of Local Government Expenditures
United States (1952) and Turkey (1950)
(in per cent)

<i>Function</i>	<i>United States</i>	<i>Turkey</i>
General Administration	10.3	23.7
Education	31.3	2.4
Health, Sanitation	9.4	17.8
Street and Highway Improvement	10.5	5.8
Public Works	25.4	23.0
Welfare	6.3	0.1
Miscellaneous	6.8	27.2
Total	100.0	100.0

The major difference in distribution of expenditure reflects the fact that education is a central government function in Turkey and a local government function in the United States. Thus, while 31 per cent of local expenditures are made for education in the United States, only

(3) The author has rearranged the published tabulations for both countries in order to secure as near to uniform classification as possible. Thus, for example, the Turkish data included Public Safety as part of General Administration. Public Safety, which was listed separately in the data for United States was, therefore, included in the total for General Administration.

Sources: U. S. Bureau of the Census, *Summary of Governmental Finances in 1952*, p. 30. Ismail Hakkı Ulkmen, "Turkiye'de Komün Maliyasi ve bunun Mahalli Muhtariyet üzerindeki önemi," *İller ve Belediyeler Dergisi* (February 1955) pp. 86-87

2.4 per cent of expenditures for education are made by local governments in Turkey. The other functions in the two countries resemble each other very closely. However, a greater proportion of expenditures in the United States goes for capital improvements and social welfare. The costs of general administration in Turkey account for a relatively greater expenditure. An unusual feature of the Turkish data is the large percentage of expenditures classified as miscellaneous (27 percent). This is attributed to the fact that cities carry on a diversity of functions, and these functions vary among the cities. Therefore, no one expenditure function was considered large enough to be classified independently.

These data, stated in per cent, obscure the different level of expenditure in both countries. Local government (excluding vilayets) spent only about 9 Turkish lira (\$ 3.25) (4) per capita and about 13 Turkish lira (\$ 4.70) including the vilayets. In the United States the per capita expenditure by local governments was approximately \$ 117 in 1952. This wide difference is in part attributable to the fact that education is a local government function in the United States. If we disregard the expenditures for education, the per capita expenditures in the United States amount to approximately \$ 70. This difference is indicative of the wide variation in per capita national product of both countries.

Revenues-Turkey The sources of revenue for cities in Turkey are prescribed in the *Municipalities Income Act* of 1948. This law gives the cities of Turkey no taxing powers except for license fees and the taxes that they can collect from consumers of the services of public utilities: gas, electricity, telephone, and transportation. The license fees, taxes on services of utilities and a host of fees and charges (the specific rates of which are fixed by law) account for approximately 43 per cent of all municipal revenues. The second most important revenue source is the municipality's share of centrally collected taxes distributed on a per capita basis. These shared taxes account for approximately 26 per cent of all revenues. Other sources include: fines (5 per cent); net profits of municipal enterprises (9 per cent); sales and rental of public property (7 per cent); special tax to aid soldiers' families (10 per cent). In addition to these revenues, cities had to borrow approximately 5 million Turkish liras. This amounted to about 3.5 per cent of a total of 141.6 million Turkish lira of receipts. The revenues of Turkish cities are thus highly inelastic, and the law gives local officials no authority to adjust revenues to the needs of the times.

(4) One dollar equals 2.80 Turkish lira.

The sources of village revenue have not been changed since they became autonomous units of government in 1923. The chief source of revenue, accounting for approximately 38 per cent of all revenues in 1950, is the *Salma* (distribution tax). This tax is assessed by the Village Council for each family. Every member of a family possessing a personal source of income is considered a separate family. The maximum amount of the tax is 20 lira per family (Law of 1939). The economic well-being of every family must be considered with the maximum charge being made on the wealthiest family. If honestly administered, although no objective criteria for wealth or income are stated, this tax is elastic and subject to adjustment. The tax has been abused, however, by the indiscriminate assessment of the maximum rate by Village Councils under prodding of the General Inspection Organization of the Central Government. Since money is not always available in villages the tax may be paid in crop valued at market prices. About 45 per cent of the total tax yield in 1950 was paid in this manner.

The second largest source of revenue in the village is the *Imece* (bodily service tax) which accounted for approximately 29 per cent of all revenues in 1950. In lieu of bodily service, a villager may pay for a day's work at the rate prevailing at the time. The services to be performed are decided by the Mayor and the Village Council. The services are either optional or compulsory. The construction of a village bath is an optional service, while the building of at least one public fountain is a compulsory service. A vote of half the villagers is needed to make an optional service compulsory. No distinction is made between male and female inhabitants with regards to the bodily service tax.

Fees and charges accounted for 24 per cent of the revenues in 1950 and previous year balances for 8 per cent. It should be noticed that villages receive no grants-in-aid. The total revenues of villages in 1950 was 55.7 million Turkish lira. When one considers the fact that there were more than 34,000 villages in Turkey, with three quarters of the population residing in these villages, the low level of services rendered at the village level is clear. Thus average expenditure per village was less than 1,700 Turkish lira (about \$ 608) or 3,5 Turkish lira (\$ 1.25) per year on a per capita basis.

The property tax in Turkey is administered by the vilayet. The yield from the land tax is entirely retained by the vilayet, while the yield from the tax on improvement is shared with the cities.

Revenues-United States : The state governments determine the nature of revenue sources of local governments. Although there have been complaints lodged that the revenue sources of local governments in

the United States are not adequate, even the most restrictive legislation allows for greater flexibility in local revenue measures than does the Turkish law. The most important source of revenue for local governments in the United States is the property tax. In 1952 the property tax accounted for 87 per cent of all tax receipts of local governments. Unfortunately, accurate data on grants-in-aid for 1952 were not available, so that the yield of this source as a percentage of total revenue could not be computed. Sales and gross receipts taxes accounted for approximately 7 per cent of all taxes. The remaining 6 per cent came from individual and corporate income taxes, death and gift taxes, and license fees. Charges and miscellaneous revenues and net profits of utilities accounted for additional revenue equal to about 45 per cent of the yield from tax sources. This differs sharply from the situation in Turkey, where the yield from fees and charges is the predominant source of revenue.

FORCES MAKING FOR PROBLEMS IN LOCAL GOVERNMENT FINANCE

On the basis of the low level of national income in Turkey and the low scale of local government expenditure, it is obvious that the well-being of local governments in Turkey is closely related to the economic development. It is not our purpose in this paper to consider the complicated problems of economic development. We are concerned with problems in local government finance at a given level of economic development. Furthermore, economic development *per se* will not solve local fiscal problems as is evidenced in the United States and other economically developed countries.

In spite of the differences in economic development and the social, political and economic setting, there is a marked similarity in the forces making for local fiscal problems in both countries. These are (1) the temper of the world situation, (2) the general economic conditions within the country, (3) population growth and movement, (4) economic development in a democracy. The effect of these forces is either to increase expenditures or to limit the possibilities for securing needed revenue.

It should be pointed out that these forces are not confined only to local government or to the post World War II period. The impact of these forces, however, varies with the level of government and the period of time under consideration. An analysis of these forces should assist us in finding measures to ameliorate the financial problems of local government in both countries.

The World Situations: The unrest in the world today has necessitated the allocation of vast resources in the United States and Turkey to national defense. Thus, 65 per cent of the budget of the United States for the fiscal year 1955-1956 is devoted to national defense. These expenditures amount to about 11 per cent of the gross national product. National defense expenditures account for 26 per cent of the Turkish budget (5) for 1955-1956. However, these expenditures do not include American military nor national defense expenditures made in the budget of other ministries. If all these expenditures are included, national defense expenditures amount to approximately 45 per cent of budget expenditures. The expenditures (excluding aids) account for approximately 5 per cent of the Turkish gross national product.

To finance these vast expenditures, the Federal Government of the United States and the Central Government of Turkey have had to reserve for themselves the most lucrative sources of revenue. There is very little hope that in the near future the world situation will be improved, and therefore, it is not likely that a solution of local government fiscal problems can be achieved through a reallocation of revenue sources among the different levels of government. However, should the world situation improve, the situation is further complicated in Turkey by the fact that the Central Government has mounted a huge economic development program which will have first claim on any released resources. In the long run, however, these funds spent on economic development will have a beneficial impact in local government by means of the rise in level of income.

Economic Conditions Within the Country: The years since the end of World War II have generally been a period of general business expansion both in the United States and in Turkey. This period of business expansion was accompanied by a general rise in prices in both countries. Because of the inelasticity of the revenue sources of local government in both countries the cost of local government services tended to rise faster than revenues. The impact of this price inflation affected local governments more uniformly in the United States than in Turkey. In Turkey there was great variability in the rise of prices throughout the country. The greatest impact occurred in the large cities and developing industrial areas. Here high prices meant not only the inability to expand old services, but made it difficult to maintain the then existing level of service. In the smaller cities and villages the price rise was not as marked, but it did delay the ability of these communities to ex-

(5) General and Annexed Budgets

and existing services. However, in the United States the rise in prices has leveled off, while in Turkey the price level is still going up and will continue to create problems for local governments.

Although price inflation results in fiscal problems for local governments, the problems arising during periods of business recession are far greater. The worst crisis in local finance in the United States occurred during the depression years. Ideally, therefore, the best economic environment for local finance would be to have continued economic growth with only slight fluctuations in business activity and price level.

There is a marked difference, however, between the nature of fluctuations in general business activity in the United States and Turkey. As has been shown above, the Turkish economy is predominantly agricultural. Its level of income is, therefore, closely tied in with weather conditions. Thus, favorable weather conditions during 1951-1953 resulted in a sharp rise in the Turkish national income. The adverse weather conditions of 1954 resulted in a decline in the level of business activity and even necessitated the import of wheat to provide sufficient food for the Turkish people. The fluctuations in business activity of the highly industrialized economy of the United States are subject to more complicated, but perhaps more readily controllable factors.

Local government can at best do little to secure the economic stability and growth so essential to their well-being since their expenditures form only a small portion of the national product. It is, therefore, the function of the central government to frame proper policies to ensure economic stability. In the United States in recent years, steps have been taken in the fiscal, monetary, and price fields to help secure economic stability. Such measures could have only limited applicability in the Turkish economy, where the impact of natural forces are at times sufficient to overbalance the measures designed by man. However, as the economic development policy of Turkey results in a better balance between agriculture and industry, Turkey will become less dependent on natural forces, and the experience gained by the United States and other countries will prove of great value.

Population Growth and Movement : The accelerated increase in population growth and the extent of population movement in the post World War II period has had a decided impact in local government finance in the United States. There has been a general movement of population from the cities into the suburbs, creating new metropolitan

areas and expanding the existing ones. While the population of the United States increased 14.5 per cent between 1940 and 1950, metropolitan area population increased by 22 per cent. The increase within the central cities was only 14 per cent, while the increase in the suburbs was 35.5 per cent. The increase in population outside the metropolitan areas was only 6.1 per cent.

This exodus from the city has created financial problems both in the suburbs and in the central cities. In the suburbs, which are mainly residential in character and, hence, have rather limited assessed valuation per capita, the provision of essential services like schools, water, sewage disposal, and police and fire protection have placed a tremendous burden upon the local government units. The per capita debts of local government units have been mounting rapidly in recent years. The central cities, on the other hand, must still provide services for the suburbanites, since they still work, shop, and come into the city for entertainment even though they no longer pay taxes to the city. Furthermore, the higher income groups have tended to move into the suburbs, and very often they have been replaced by underprivileged groups, thus reducing the tax base of the central cities.

In Turkey, there was relatively little population movement between 1927 (6) and 1950. In 1927, 24.7 per cent of the population was urban and by 1950 this percentage had increased only to 25.2. However, population growth during this period was rapid, increasing by approximately 53 per cent between 1927 and 1950. Between 1940 and 1950 population increased by 17 per cent as compared with 14.5 per cent in the United States. Thus, although there was a substantial increase in population, there was little movement from rural to urban centers.

However, since 1950 there appears to have been a decided population movement from the villages into the cities. The 1955 census is now under way and no precise data exist. Nevertheless, experts in the field estimate that today as much as 30 per cent of the population live in urban areas compared to 25.2 per cent in 1950. This movement of population into the cities can in part be attributed to the industrial development that has taken place since 1950 and to the lure of the city, which is now more accessible as a result of the improved roads and with which people have become more familiar as a result of the increasing literacy and availability of radio communication—all, of course, resultants of the increased standard of living.

(6) The date of the first census under the Republic.

This movement of population is causing problems similar to those faced by American cities about fifty years ago. Housing has become a key problem for Turkish cities. The lack of adequate housing is creating slum areas. Sections of Ankara, for example, are populated with "over-night huts" (7) constructed by new arrivals. The provision of essential services has caused the costs of city government to mount. The traffic problem in Istanbul is today not much better than the problem in New York in spite of the fact that few cars can be imported because of the shortage of foreign exchange. The city of Izmir is now faced with a problem of pollution of its beaches. The larger cities are expanding into heretofore undeveloped areas, requiring the provision of services to these areas. Izmir and Istanbul, for example, are becoming central cities of metropolitan areas. If the present pace of economic development continues in Turkey, its cities can be expected to go through the same cycle as American cities. First, there will be the intensification of existing problems arising from movement into the cities and then the problems arising from a movement out of the city. Evidences of this pattern are already quite obvious.

Economic Development in a Democracy: More than one hundred years ago the French political philosopher Alexis de Toqueville foresaw the pressures that would be put upon democratic governments for ever-increasing services:

"Moreover, all democratic communities are agitated by an ill-defined excitement and a kind of feverish impatience that creates a multitude of innovations, almost all of which are expensive... When a people begin to reflect on their situation, they discover a multitude of wants that they had not before been conscious of, and to satisfy these exigencies, recourse must be had to the coffers of the state. Hence, it happens that the public charges increase in proportion to the civilization of the country and taxes are augmented as knowledge becomes more diffused." (8)

Although the above statement is equally applicable to all levels of government, the initial impact of most new demands is on local governments, since they are the ones who provide those services most closely related to the daily life of the people.

In the United States people now generally accustomed to a higher standard of personal living have come to expect an expansion of go-

(7) So called because they are said to be constructed overnight out of any materials that are at hand.

(8) Alexis de Toqueville, *Democracy in America*. Philips Bradley, editor (New York: Alfred A. Knopf, 1945), Volume 1, pp 215-216.

vernment services. Among recent demands there has been included: greater provision for social welfare, local health and hospitals, better sewers and sewage disposal, more police, better streets, and more adequate fire protection.

In Turkey, the impact of the stepped-up pace of economic development and of the improved education and training can be observed. As one travels by car over the roads of Turkey, it is not unusual to find truckloads of villagers in their way to the city to visit the cinema. In the city and at the cinema, they are brought into contact with new experiences which in turn will give rise to new wants and ensuing demands on government. Another common sight is the constant cry of shepherds and farmers as your car goes by for newspapers. With the increase in literacy, the villager has come to depend on the newspaper as his link with the outside world. He now knows that the newspaper will unfold new wonders to him. These wonders in turn will give rise to new wants and desires. As economic development progresses in Turkey, local governments can look forward to continuous demands being made upon them.

WHAT HAS BEEN AND CAN BE DONE

The forces responsible for the increasing cost of local expenditures as well as those responsible for creating difficulty in securing sufficient revenues, it appears, will remain for some time to come. In the light of these conditions, what are the remedies already taken and what steps might still be taken to help solve the fiscal problems of local government? These remedies we have classified into six major groups: (1) better exploitation of existing revenues, (2) additional taxing powers, (3) financial assistance, (4) reorganization of the structure of local government, (5) improvement in local government administration, and (6) guidance by superior levels of government.

Better Exploitation of Existing Revenues: Local governments in the United States could remedy some of their financial difficulties by better utilization of existing revenue sources. The local property tax, which is and will long be the principal source of local revenue, is not being used effectively. Insufficient attention is paid to the determination of assessed values, the base upon which the tax is levied. There is often great inequity among the assessed values of properties of the same type and among different types of property. Political pressures and the lack of trained assessors are primarily responsible for the poor administration

of the tax. In addition, some state laws actually encourage low valuations among some governmental units, since the local unit's share of state funds is often in inverse ratio to its assessed valuations. Both the yield and equity of the local property tax could be improved by more effective administration. Local governments could also increase their revenues through a careful study and revision of their charges for licenses and services. Thus, many governments unnecessarily lose money on their water operations because of no carefully thought out method of rate setting. Revenues from sales taxes could be increased through more careful auditing of returns. The hiring of additional auditors would more than pay for the added costs through increased revenues.

In Turkey there is little that cities and villages can do to improve the yield of their limited revenue sources. However, the higher levels of government through more efficient administration of the taxes allocated to them could make greater shares available for local governments. The same difficulties that beset the administration of the property tax in the United States exist in Turkey, where the property tax is administered by the vilayets. In 1955 a bill was introduced in the Grand National Assembly increasing the rate of the tax and transferring its administration to the Central Government. Among other reasons, it was felt that this change would make for better assessment and enforcement. The bill did not provide for a definite formula for sharing the yield of the tax with the vilayets and hence aroused much opposition and was defeated. Better administration of the property tax would increase the yield of this tax and would result in larger shares for the cities. In fact, increased yields might also enable the sharing of some of the yield from this tax with the villages, which, as stated above, receive no aids at all.

The Turkish personal income tax exempts farm income from taxation. While it is equitable to exempt the earnings of small farmers who for the first time have become familiar with a money economy, there is no sound economic reason for tax exemption for farmers with large incomes. There is much sentiment in Turkey today for a tax on farm incomes above a certain minimum. The resulting increased yields from the personal income tax could release some additional funds to be shared with local governments.

There is very little tax research being carried on in Turkey at the present time. There are no studies to determine whether the existing rates of taxes could be increased without any harm to the economy. A tax research bureau should, therefore, be established by the Central Government to undertake such a study and other types of tax research.

Additional taxing powers: In the present world situation it is not feasible to expect the Central Governments to release any of the more lucrative sources of revenues to local government or to decrease the level of central government taxation. In the United States cities have found it necessary to levy new taxes. The sales tax is now in wide use as a source of revenue. Some cities have levied income taxes. Many have had to resort to a wide variety of nuisance taxes, including taxes on amusements, hotel bills, parking, etc.

In Turkey there have been no additional taxing powers granted to local government. The post-war law of 1948 increased the rates of municipal government charges and increased the number of shared taxes and the amount of the shares. In 1954 the new Turkish Highway Code provided for shares of motor vehicle revenues to be distributed to the municipalities.

A recent staff report to the Fiscal Affairs Commission in New York State suggested granting some cities the right to add an additional rate on the state income tax for the city's use. The tax would be collected by the state and returned to the city. The city would thus have the advantage of the state's tax administration and would itself incur no collection costs. Such a device might well be used throughout the United States and in Turkey. It need not be limited to the income tax. In Turkey, a provision of this type would add some flexibility to the present tax system. The decision to levy the tax would be the responsibility of the local government. Such legislation would give municipalities and villages an incentive to help improve local conditions upon their own initiative. Without this freedom of action, local governments cannot gain the valuable administrative experience needed.

Financial Assistance: One form of financial assistance provided to local governments in the United States consists of grants-in-aid by both the Federal and state governments. The purposes of these grants are either: (1) to encourage the undertaking of certain functions, (2) to assure minimum performance of certain functions, or (3) to provide for equalization of opportunity to perform certain services among local governments with varying resources of their own. Most of the Federal grants are distributed to the states, who redistribute their grants to local governments. In the post-war period there has been a demand for additional grants by local government. In fairness to local government, it would therefore be highly desirable for each state to evaluate the grant-in-aid program as to the adequacy of the grant and the validity of the formulas used to distribute the aid.

A second form of assistance is through the method of shared taxes. The states because of their superior position, can very often administer many taxes more readily than local governments. It therefore collects these taxes and redistributes them among local governments. The Moore Plan in New York State has set a model for distributing these aids on a basis closely related to need and also stabilizing the amount of assistance. New York State distributes aid to cities, towns, and villages on the basis of a fixed per capita rate. The per capita rate varies among the three types of local government in rough proportion to their financial needs and resources. A fixed grant is thus assured to these units of local government irrespective of the yield of state revenues. The Moore Plan could serve as a basis for reform of the shared-tax system of many states.

In Turkey the 1948 Municipal Revenue Law provided for a system of assistance in part resembling the Moore Plan. It provided for the deposit of a certain percentage of the yield of centrally collected taxes in the *İller Bankası* (9) (Provinces Bank) for the use of city governments. Eighty per cent of these collections are distributed to the municipalities on the basis of population, and twenty per cent are distributed to small cities of less than 50,000 population for their capital expenditure needs. Thus this method of distribution has the "needs" basis of the Moore formula but lacks its stability, since the amount distributed is tied to certain taxes and therefore subject to fluctuating yields.

This method of distribution takes into consideration the difficulty of raising revenue for the smaller cities but ignores the fact that the larger cities have higher per capita costs to provide necessary services. Furthermore, there is no provision made for assistance to villages. It would therefore be desirable to explore the possibility of (1) flat per capita grant not tied to the yield of specific taxes, and (2) a differential per capita grant to different size cities and villages related to their relative abilities to raise revenue as againsts their per capita costs.

Turkey today has no system of grants-in-aid to local governments. It might be argued that the needs of the Central Government for carrying on its economic development program is so great that funds are not available for grants-in-aid. However, in mounting an economic development program, most governments overlook the social cost of such a program. They tend to carry on a "showcase" type of program, where a small group of citizens in industry or agriculture are heavily subsidized and protected to become a symbol of progress in which few others

(9) The bank was originally organized in 1933.

can share. Genuine economic progress, however, must have a wider base. To obtain more diffused benefits of economic progress requires in Turkey a government policy calling for much larger investments in the welfare of the rural population. This implies a substantial increase in government investment in education, health, practical agricultural knowledge of village people and in trained technicians to help make these investments successful. (10)

Some of these investments might well be carried on through a system of grants-in-aid, especially in the health field and improvement of agricultural knowledge. Through a system of grants, the Central Government can encourage added interest in these fields.

In Turkey, the Central Government through the *İller Bankası* provides a third form of assistance by extending credit to cities at low rates of interest. In Turkey, where there is a limited private money market, such a practice is highly desirable. In the United States, such an organization would not be feasible. In New York State, however, the comptroller has entered competitive bids with retirement fund monies for the bonds of school districts and thus has been able to keep the interest rate for these bonds down. Other states might consider this practice to help alleviate the difficulties of local government units in securing loans at reasonable rates.

Reorganization of the Structure of Local Government: The resources of the entire metropolitan area are no doubt quite adequate to maintain the services for the area. However, because of the splintering of these areas into a multiplicity of non-cooperating governmental units, wide variation exists in the available resources and many localities experience difficulties in providing adequate services. Nassau County in New York State illustrates some of the difficulties. There are today nineteen water districts in Nassau County. At one time, when the county was sparsely settled, these special water districts served a purpose, since they provided a needed service for the widely separated centers of are contiguous with one another, and the entire population of the county population. Today in Nassau County the boundaries of the water districts has a common problem. Nevertheless, every summer certain areas must go without water, equipment is duplicated in the water districts, and there are nineteen different water boards. All this could be avoided by centralizing the water function in the county and utilizing the entire resources of the county for the benefit of the entire population. The most re-

(10) William H. Nicholls, "Investment in Agriculture in Underdeveloped Countries." *American Economic Review* (May, 1955) pp. 58 - 73

cent attempt at solving financial problems on a metropolitan area basis has been made in Toron, Canada. This experiment should be closely followed in the United States, and more serious efforts should be attempted along those lines. (11)

There exists a multiplicity of local government units in Turkey as in the United States. Many of its over 34,000 villages are so small that it is not economically feasible for them to provide services for their citizens. Many of the cities are likewise very small. It requires a population of 2,000 to have a city government in Turkey. Now that roads have improved in Turkey, there are not as many isolated villages, and it would be well for the Turkish government to consider consolidation of the villages and small cities into larger governmental units on the basis of geography and the availability of resources. An argument that is often raised against consolidation is that it vitiates the principle of local autonomy. While the principle of local autonomy is a highly desirable one in a democracy, local autonomy without a proper economic basis can be of little value to citizens. On the contrary, it may lead to dissatisfaction among the citizenry because of the inability of its autonomous unit to satisfy their needs.

Improvement in Local Government Administrations: Local government must learn how to manage their own affairs more efficiently. This is true both in the United States and Turkey. Local governments must learn better means of budgetary planning and control. They must learn more effective means of tax administration. Greater emphasis must be put upon physical planning.

The situation in local government administration is more acute in Turkey than in the United States. Local governments in the United States have long experience in administration, and there are many local government organizations that have done excellent jobs in all phases of local financial administration. Although there is a dearth of trained personnel available for local government administration in the United States, it in no way approaches the lack of trained personnel in Turkey. Such organizations as the International City Managers Association the Municipal Finance Officers Association and many others have done much to interest qualified men in local government and to establish professional attitudes and standards of good administration among local administrators. Under the current concept of central control of local finance, however, it is difficult to develop trained administrators. To develop

(11) Winston C. Crouch, "Metropolitan Government in Toronto," **Public Administration Review** (Spring, 1954) pp. 85-95

into a capable administrator, one must be trained in the art of decision making. If the budget, the revenue sources, and all other phases of local finance are closely supervised by the Central Government, there is a minimum area for decision-making left to local administrators. This destroys initiative and is discouraging to capable men who might be interested in local government administration. It was, therefore, very interesting to see an article in the Turkish newspaper *Cumhuriyet* 12 announcing that the newly proposed draft of Organization Law for the Ministry of Finance plans to allow for greater decentralization in financial administration. It is hoped that with time further steps toward granting greater freedom of action to local communities will be undertaken.

Guidance by Super Levels of Government : In the United States, the state government and, in Turkey, the central government can be of assistance in helping local governments solve their problems. Thus each state might do well to establish an agency to which local government can turn for technical assistance. In Turkey a similar agency or agencies could be set up by the Central Government. There are many young men in the Turkish civil service who have been trained at home and abroad in various aspects of financial administration. Many of these men have had little opportunity to apply their newly acquired skills because of the nature of the organization of financial administration in Turkey. An agency of the type suggested could readily be staffed in Turkey today and would provide an outlet for the skills of many civil servants. The agency, envisioned here, is one that would train, guide, and advise local government administrators but would not exercise control powers. As stated before, the aim is to develop initiative among local officials and to train them in the art of decision making.

An comparison of local government in the United States and Turkey must of necessity be limited. The federal system in the United States and the unitary system in Turkey make precise comparisons difficult. In spite of different stages of economic, political and social development, there exist a similarity in the forces making for local fiscal problems and a similarity in the remedial measures that can be applied. Because of these similarities, Turkey might well study the experiences of the United States in the field of local finance. Turkey, in its process of development, need not make same mistakes as the United States. It can and should accept those experiences of the United States which can effectively be adapted to its needs.