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TOWARDS A NEW STATE MODEL FOR THE 21ST CENTURY:

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# OPTIMAL STATE

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*(Executive Summary)*



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

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# OPTIMAL STATE

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*(Executive Summary)*

**İstanbul, September 1995**  
**(TÜSİAD Publication No. T/95, 9-185)**

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ISBN : 975-7249-16-5

Ajans Medya Reklamcılık A.Ş.

“Is there any boundary to the interference of government? and, if so, what is that boundary?”

**Herbert Spencer\***

“Inquiry into the proper aims and limits of State agency must be of the highest importance - perhaps greater importance than any other political question.”

**Wilhelm von Humboldt\*\***

“How long can government continue to increase its power over the economy without harmful long-term consequences that would be difficult to check or to reverse by the procedures of democracy?”

**Friedrich A. von Hayek\*\*\***

“What should governments be allowed to do? What is the appropriate sphere of political action? How large a share of national product should be available for political disposition?”

**James M. Buchanan\*\*\*\***

\* *Herbert Spencer, Political Writings, Ed. John Offer, Chicago: University of Chicago Press, 1994, p.4.*

\*\* *Wilhelm von Humboldt, The Limits of State Action, Ed. J. W. Burrow, Cambridge University Press, 1969, p.10.*

\*\*\* *F. A. von Hayek, “Will the Democratic Ideal Prevail?” in: F. A. von Hayek, Economic Freedom, Basil, Oxford: Blackwell, 1991, p.399*

\*\*\*\* *James M. Buchanan, “Politics Without Romance: A Sketch of Positive Public Choice Theory and Its Normative Implications”, in. J. M. Buchanan and R. Tollison, Theory of Public Choice II, University of Michigan Press, 1984, p.12.*



# FOREWORD

One of the most important items on the global agenda of the past couple of decades is restructuring and limiting the public economy on the one hand and to render a competitive market economy effective on the other hand. As we approach the 21st century, there is an increasing change and reform process towards a shift from public economy to market economy. A 'new' state philosophy to replace the traditional state concept which is described by words such as socialist, interventionist, centralist, protectionist, bureaucratic, and paternalist is being formed. The Socialist State where all factors of production are owned and used by the state is being replaced by a Liberal State philosophy with limited duties and functions in a market economy based on private ownership. The concept of an Interventionist State or a Social Welfare State is being seriously questioned and what the concrete duties and functions of the state should be is being discussed. Within this framework, the state philosophy which meets the demands of the 21st century can be defined as a Limited State.

Efficiency is a key concept in the new state philosophy that we are trying to establish. In order to have efficiency in services and costs, there is a shift from an entrepreneurial, centralist and protectionist state to an arbitrator or decentralized state. In some countries, the central administration transfers some of its duties and functions to the market economy through decentralization and to local governments in order to render services of lower cost, higher quality and in a fast manner.

There are two significant dimensions to the reform for restructuring the state: (1) Restructuring the public economy; (2) Restructuring public administration.

The reform for restructuring the public economy aims at drawing the limits of the state's economic activities. Which goods and services should the state provide?

Which goods and services should be provided by the market economy? Which kinds of goods and services can the Third Economy (Not-for-profit voluntary economy) which is not included in the public economy provide efficiently? These and similar questions are analyzed and studied within the context of the reform for restructuring the public economy. Some of the duties and functions of the public economy are transferred to the private sector and/or to the third sector under a new policy called privatization. As it has already been mentioned, the main objective of the reform for restructuring the public economy is redefining and drawing the limits of the economic activities of the state. This is where a new state philosophy called the Optimal State emerges. Optimal State is used as 'the most appropriate state.' The optimal state aims at determining the most appropriate duties and functions for the public sector.

The Reform for Restructuring the Public Administration is also significant in the restructuring of the state. Reorganizing the state administration, rendering the personnel effective, restructuring the budget system, rendering the supervision activities effective, and decreasing bureaucracy and red tape are only some of the reforms necessary for the effective and productive functioning of the Optimum State. It is inevitable to make the necessary constitutional-legal and institutional arrangements in order to establish an optimal state in public administration.

The objective for the 21st century is to institutionalize the new state philosophy the basic principles of which are mentioned above. In Turkey, it is necessary to restructure the state which struggles with serious economic and political problems according to the principles stated in this study. It is significant to initiate serious studies as soon as possible in order to implement the reform for restructuring the public economy and public administration.

Since its foundation in 1971, TÜSİAD has continued its efforts to ensure Turkey's development in a market model, to enable Turkey to reach global standards

in its economic and social life; it has carried out studies, organized scientific meetings and published some documents to this end.

Taking into consideration the significance of the subject, the report called 'Towards a New State Model for the 21st Century: Optimal State' has been prepared to create a discussion platform on this topic. It is TÜSİAD's objective to be scientific and objective in its publications. Therefore, the assessments in this report do not necessarily reflect the opinions of TÜSİAD or its members.

Aware of the significance of the topic, TÜSİAD presents to the public this report on restructuring and downsizing of the state. This report has been prepared by Associate Professor Coşkun Can Aktan who is currently a Visiting Scholar at the Center for Study of Public Choice in the USA.

**TÜSİAD**



# **SUGGESTIONS ON THE CREATION OF AN OPTIMAL STATE IN TURKEY AND ON THE RESTRUCTURING AND DOWNSIZING OF THE STATE**

The structure, functioning and administration of the State in Turkey is facing serious problems. Since the declaration of the Republic until the present time, the problems existing in the public sector economy and in public administration have been worsening with every passing year. For many years our country has tried to cope with economic, social, political and cultural problems, and instead of solving these problems the State itself has been the source of these problems.

The main problems of the public sector economy in our country can be summarized as follows :

- Inflation,
- Budget deficit (financing deficits of the public sector),
- Heavy tax burden and underground economy,
- Heavy debt and interest rate burden,
- Burden of the public enterprises on the national economy,
- Problems created by the economic enterprises owned by Local Governments,
- Low rate of service effectiveness in the public economy,
- Low rate of cost efficiency and productivity in public sector goods and services,
- Administrative, financial and supervision problems of Local Governments,
- A State that has grown excessively in terms of size and scope.

The main problems of public administration in our country are summarized below by headlines only :

- Bureaucratization (expansion of the bureaucracy, red-tape, unnecessary formalities, lack of flexibility, secrecy and suppression of facts in the administration, slow progress in the works, lack of productivity, waste and squander, reluctance to delegate bureaucratic powers and authority, increase in the number of employees, material assets and service units, difficulty for citizens in having access to the administration, etc.).

- Excessive centralization (decision-making and implementing powers are concentrated in the center, political and administrative centralization; utilization of public resources by the central administration, accumulation and distribution of

revenues at the center; economic and financial centralization)

- Political corruption (bribery, embezzlement, nepotism, cronism, pork-barrelling, rent seeking, etc.)
- Insufficient coordination, control and supervision activities (lack of coordination among service units, ineffective implementation of control and supervision activities)

In order to be able to resolve the problems existing in the public sector economy and in public administration, the basic principles and action plan of the reform we called Reform for the Restructuring of the State must be created and implemented without delay. Our suggestions to this end may be summarized as follows :

### **1. Reform for the Restructuring of the State must be realized by the Economic and Social Council :**

A Social Consensus Council (Economic and Social Council) must be established to fulfill the task of realizing the Reform for the Restructuring of the State. Other than the political power and bureaucracy, this Council must include the representatives of universities, professional organizations, voluntary institutions, and trade unions among its members. (See Fig. 1).

Task-forces to be created within the structure of the Economic and Social Council must prepare the basic principles and strategic planning of the reform for the restructuring of the State. The task given to the Economic and Social Council is in fact the realization of the reconstruction project of the State. The basic philosophy of this project is the preparation and implementation of a "new" social contract between the citizens and the State through dialogue and consensus. The legitimacy of any State not based on a social contract is always debatable. The basic structure, functioning, tasks and duties, as well as the scope and limits of powers and authorities of the State, must be realized with the participation of all social sectors.

**Figure: 1- Composition of the Social Consensus Council and the Reform for the Restructuring of the State**

**Social Consensus Council**

Ruling Party and Bureaucracy	Representatives of the Opposition Party	Unions		Universities	Voluntary Organizations	Traders and Artisans	Semi-Public Institutions (Trade Unions)
		Employer	Employee				
-Cabinet -DPT -HD TM -TCMB -SPK -DIE	Parties holding seat in the Turkish Grand National Assembly	TISK	TÜRK-İŞ HAK-İŞ DİSK	YÖK Universities	TÜSİAD	TESK TZOB	TOBB

**Reform for Restructuring the State**

Working group for restructuring the central government	Working group for restructuring local governments	Working group for restructuring the public enterprises	Working group for restructuring social security institutions	Working group for restructuring off-budget public entities	Other public institutions...

- DPT - State Planning Organization
- HD TM - Undersecretariat of Foreign Trade and Treasury
- TCMB - Central Bank of the Republic of Turkey
- SPK - Capital Market Board
- DIE - State Institute of Statistics
- TISK - Turkish Confederation of Employers Union
- TÜRK-İŞ - Türk-İş Trade Union
- HAK-İŞ - Hak-İş Trade Union
- DİSK - DİSK Trade Union
- YÖK - Institute for Higher Education
- TESK - Turkish Cooperative of Traders and Artisans
- TOBB - Union of Chambers of Commerce and Industry of Turkey
- TZOB - Turkish Union of Agricultural Chambers

## **2. Reform for the Restructuring of the State must comprise the Reforms for the Restructuring of the Public Sector Economy and of Public Administration :**

The main purpose of the reform for the restructuring of the public sector economy is to bring a new definition to the economic activities of the State. In this context, the tasks and functions of all service units, along with those of the central administration and local governments must be defined in a clear cut manner. Furthermore, the scope and limits of the economic powers and authorities the central administration and local governments hold have to be set forth according to the rules of law.

On the other hand, the main purpose of the Reform for the Restructuring of the Public Administration is to take measures for the reorganization of the State's administrative structure and the improvement of the administration structure.

Suggestions regarding both fundamental reforms are indicated below:

### **A. Reform for the Restructuring of the Public Sector Economy and Privatization**

The economic activities within the national economy are performed mainly by three sectors :

- Public Sector (public economy)
- Private Sector (private economy)
- Third Sector (Third economy - non-profit voluntary organizations)

As indicated above, the main objective of the reform for the restructuring of the public economy is to determine which economic activities are to be performed by the public sector within the national economy. Which goods and services should be produced by the public sector? What should be the duties and functions of the State? How should services and resources be distributed among the central administration and local governments within the public sector? The analysis of such questions has great importance for the redefinition of the economic activities of the State.

Suggestions regarding the reform for the restructuring of the public sector economy are summarized below :

- In a competitive market economy, goods and services should be produced and supplied as much as possible by private enterprises.

- The basic duties and functions of the central government should be restricted to external and internal security, diplomacy, justice, judiciary and infrastructure services.

- The central government (central administration) should perform the above indicated services through the legislative, executive and judiciary organs falling into the scope of the general budget. The number of Ministries attached to the executive must definitely be reduced.

- Other than performing the services indicated above, the central administration should be responsible for taking and implementing decisions related to the general economic policy.

- Services like education, health, public works, environmental protection should be delegated to local governments. The central administration should only be responsible for preparing the policies, plans and programs concerning education and health services, whereas local governments should be responsible for the implementation of such services.

- In general, all local goods and services should be provided by local governments. There must definitely be a clear "sharing of services" among local governments. The distribution of powers and services among municipal and provincial administrative bodies must be definite. The provincial special administrations should mainly perform the following services :

- Education,
- Health,
- Public Works,
- Agriculture and animal husbandry,
- Population services,
- Social and cultural services (Alms-houses, home for the elderly, etc.)

Municipalities should be responsible for the following services :

- Master plans,
- Construction permits and control of construction works,
- Collection of local government taxes,
- Recycling and disposal of wastes, waste collection services,
- Infrastructure investments,
- Asphalt services,
- Water, sewage, natural gas, electricity services,
- Construction of green areas, parks, gardens, sport, recreation and entertainment areas,

education and health institutions. Instead of providing free of charge services for low income groups at education and health institutions of the State, they should be given scholarships, education and health vouchers, thus encouraging them to demand services from the market. The possibility of transferring the management of State hospitals, university hospitals and hospitals of the Social Security Institution to the private sector on contract basis should be investigated and their management should be privatized as much as possible.

- The State should definitely refrain from investing in sectors where the private sector is already operating successfully. The ownership of public enterprises operating in such sectors must be transferred to the private sector under feasible conditions.

- The State should implement a well defined new incentive policy which will reinforce the market economy.

- Instead of performing public services themselves, the central administration and local governments should tender out such services to the private sector. In this context, it is important that tender provisions are well regulated, and that the announcement, conditions and outcome of tenders are transparent.

- Under no circumstance should the state execute any infrastructure or major investment projects and nor should it award such services to domestic and international contractors through tenders. Even the number of joint ventures the state undertakes with the private sector should be limited substantially. However, it is crucial to determine the basic principles of such tenders and to ensure their transparency.

- The principles of the build-operate-transfer system should be regulated within the framework of well-established laws.

- Foreign capital investments to Turkey should be encouraged.

- The tax system should have a neutral effect so as to have the minimum effect on the decisions of the domestic and foreign entrepreneurs and investors. The tax ratios should absolutely be decreased and flat rate taxes which do not entail exceptions or exemptions should be implemented as much as possible.

- Along with the reform envisioning the restructuring of the public economy, a population and family planning policy aiming for decreasing the population growth rate should enter into force and measures should be taken for its effective implementation. One should not forget that unless the population growth rate is decreased, the state cannot be downsized.

## **B. The Reform for Restructuring the Public Administration**

In order to establish an Optimal State in our country, it is necessary to put into force a reform for restructuring public administration, as well as the public economy. The reform for restructuring the public administration should contain recommendations about the reorganization of the state's administrative structure and about ensuring the effective and efficient operation of the administration. The recommendations which can be included in the action plan prepared to this end can be summarized as follows:

- A constitutional-legal-structural reform is significant for the efficient administration of the state. First, a “genuine” Constitutional Reform needs to be executed; the optimal state philosophy and its basic principles need to be incorporated into the constitution.

- In addition to the Constitutional Reform, the basic laws and institutions pertaining to the structure and administration of the state need to be restructured with a Legal Reform. Legal legislation (laws, regulations with the force of law, regulations, etc.) need to be readjusted within the framework of the new administration paradigm and philosophy.

- An Institutional Reform needs to be implemented along with the Constitutional and Legal Reforms. The Institutional Reform entails the reorganization of the central and local governments and other public institutions by taking into consideration their functions and duties.

- A general reorganization of the state's administration is crucial for an institutional reform. The central administration, local governments, public enterprises, off-budget public entities, social security institutions need to be reorganized in accordance with their functions and duties. Organizational structure is a key issue for effective administration.

- 'Transparency' in public administration has to be ensured. The main recommendations about this topic are as follows:

- The 'right to information' should be guaranteed and individuals should have easy access to official information and documents. The public should consider having access to information a right and the state should consider giving information an obligation. The information and documents (such as information on national defense and diplomacy) to which citizens cannot have access should be clearly specified by laws. Otherwise, secrecy in public administration should be out of the question.

- In order to ensure transparency in public administration, the public should be given the opportunity to attend meetings (such as municipality councils and trials) where public decisions are taken as listeners. In particular, legal arrangements should be made in order to ensure the participation of the public to local governments. Individuals should be able to participate actively in the decision-making process. Local governments should be the first step in the concept of a Participatory State for Democracy.

- The decisions taken at all council meetings as part of the decision-making process should be shown to anyone interested in these decisions and a copy of the decisions should be provided if requested. Significant public decisions should be written and filed along with their legal basis; the public should have the right to request or see decisions along with its legal basis.

- In order to ensure transparency, the public should be informed about topics such as how the administration works, what kinds of limitations there are concerning the actions and behavior of public employees, etc.

- In order to achieve transparency, the public's access to the administration should be facilitated. Public institutions should consider individuals as 'clients,' rather than 'citizens.' The concept of client and not citizen should be institutionalized in public administrations.

- The penal sanctions against secrecy and concealment in public administration should be clearly defined by law.

- The centralist and protectionist approach of the state in public administration should be abandoned. The administrative and financial autonomy of local governments should be ensured. In order to achieve this, a division of tasks and authority between the central and local governments should be achieved. As for financial autonomy, the central and local governments should share their income; the resource dependency of local governments to central governments for financial autonomy should be eliminated or should be decreased significantly.

- The existing economic enterprises of municipalities involved in commercial and industrial activities should be privatized in the shortest time period possible; legal limitations against the establishment of such enterprises should be adopted.

- A serious supervision reform to ensure effectiveness in the overgrown and bulky state structure needs to be implemented. Within this framework:

- The supervision of the legislative, executive and judiciary branches of the central administration need to be revised;

- The Exchequer and Audit Department should be responsible for the financial supervision of the central administration only; a Local Governments' Exchequer and Audit Department separate from and independent of the Exchequer and Audit Department should be established in order to supervise the accounts of local governments.

- An institution called the Institution for the Supervision of Political Corruption working with the parliament should be established in order to eliminate or significantly decrease any political corruption in public administrations.

- In order to ensure the legality of public administrations, an institution similar to the Ombudsman in Western countries has to be established as a supervisory mechanism.

- A Law on Government Ethics should enter into force in order to ensure honesty in public administration and to eliminate or decrease political corruption (bribery, embezzlement, nepotism, etc.). The rules and regulations (such as rules on transparency, the obligation to declare personal property) to be followed in the state's administration need to be specified in detail.

- In the reform for restructuring the public administration, corrective measures for improvement need to be taken in the public personnel system. The recommendations on this subject can be summarized as follows:

- The principle of 'employee for a position,' rather than 'position for an employee' should be adopted in public administration.

- A merit-based, rather than a seniority-based, system should be emphasized in public administration. The education, training, experience and skills of the personnel have to be taken into consideration.

- Working in the public sector should not be perceived as a life-long employment guarantee. When public employees feel that their employment is guaranteed, their productivity and motivation levels decrease.

- A new employment policy has to be adopted. The examination system for public employment has to be changed so as to not enable nepotism and cronism.

- A new wage policy has to be adopted in public administration. The wage system needs to take into consideration the nature of both the employee and the position. The real problem is not the insufficiency of the wages but the imbalance in public wages.

- The practice of providing state housing for public employees favors certain employees and causes waste and unnecessary expenses due to the improper use

of public property; this practice should be eliminated for good. Only a very limited number of employees (armed forces, security forces, etc.) need to be given state housing due to the nature of their positions. The rent of such facilities should be close to the rent of similar housing units in the public sector.

- The commuter buses allocated to public employees should be eliminated. The commuter buses, too, create a system of favoritism among public employees.

- The standards and renewal time periods of all office materials, transportation vehicles, communication tools, etc. need to be determined beforehand. Unnecessarily high expense for the purpose of decorating public offices should be eliminated.

- Facilities such as presses and printing houses, camps, entertainment and vacation centers, cafeterias, etc. which public institutions own should either be privatized or liquidate as soon as possible.

- The reform for restructuring the public administration must be implemented in a serious and determined manner so that public trust in public institutions can be re-established. In order to establish a good public administration system in Turkey, the public should renew its trust in the Turkish political system, the Turkish Grand National Assembly, courts and public employees. The negative prejudice of the public against public sector employees, such as their being 'uninformed,' 'hindering,' 'lazy,' 'corrupt,' must absolutely be changed.

- The regulations concerning public purchases and tenders have to be revised. Accordingly:

- Not all of the public institutions in Turkey fall under the scope of the Law on State Tenders, no.2886. Public Enterprises and some public entities (such as State Water Enterprises and highways) do not fall in the scope of Law no.2886; the tenders of these units are carried out according to the regulations prepared by the Ministry of Finance and Customs. On the other hand, according to Article 28 of the Law on State Tenders, all of the principles and procedure of some tenders (such as tenders for the defense industry and tenders where loans from the World Bank are used) have to be approved by the ministry. The discrepancies in and the flexibility of the regulations increase the power and impact of bureaucracy on tenders. Therefore, first of all, all procedures and regulations concerning the tenders of all public institutions need to be regulated under one law. How tasks and tenders of a special nature are to be handled should also be clearly indicated in the same law.

- That calls to tender reach a wide audience should be ensured. All calls to tender should be announced in a daily or weekly Official Tender Gazette. Sizable tenders that exceed a certain amount must also be announced in two or three national newspapers with a large readership.

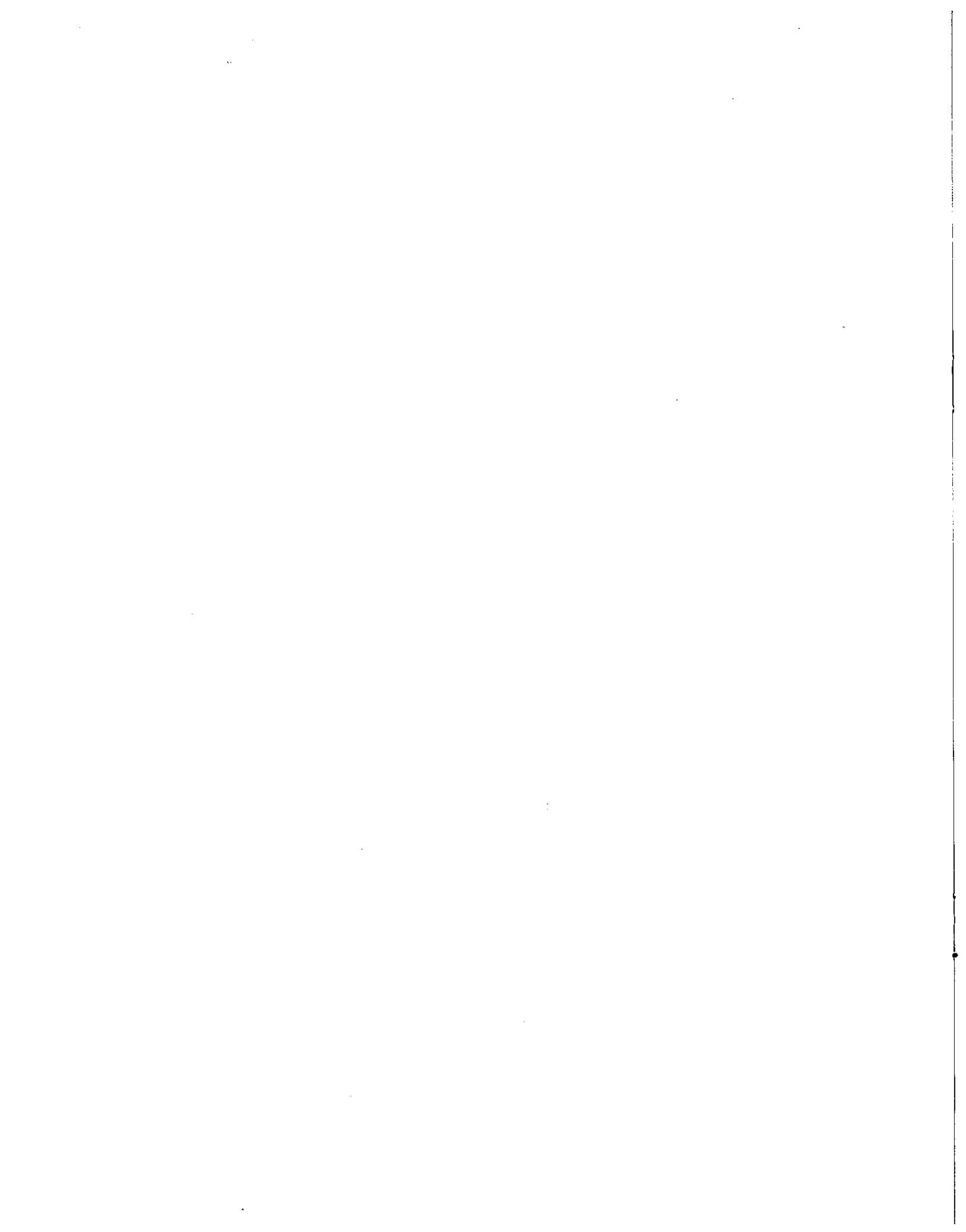
- Tenders should be transparent. Especially sizable tenders should be awarded publicly on TV.

- Tenders should absolutely be held in a competitive environment. Article 44 of the Law no.2886 calls for holding tenders by sealed envelope in tenders 'of a special nature' where there are at least three bidders. The phrase 'tenders of a special nature' can be interpreted in so many ways that all kinds of tenders can fall into this category. The public institution holding the tender can ask any three companies to participate in the tender under this article. In summary, since under the current system tenders are not open to the public, the situation should be regulated by a new law.

- The method of determining the 'acceptable price' in a tender is very important. A new method of regulating tenders should be determined with the input of experts in the field.

- How and when the tender payments are to be made to contractors must be determined by law. Delaying the payments to contractors creates opportunities for bribery.

- The applications of those contractors who enter a tender but who lack the necessary technical power should not be accepted. It is also important to analyze the financial situation of the contractors.



## CONCLUSION: TOWARDS THE OPTIMAL STATE .....

*"The explosive growth of government at all levels today is alarming. Even people who do not examine the simple statistics should be increasingly concerned about higher and higher taxes levied in support of governmental programs that become less and less efficient in providing benefits of real value. If a forward look is attempted, the picture seems horrendous. In a decade governments will be using up more than one-half of each dollar of national income generated, and well over a third of gross national product will be expended through governmental channels. The propensity of government to seize upon and to spend additional dollars of the income growth that the national economy generates cannot be questioned. But as the share of government in the economy grows, can the private and nongovernmental sector continue to provide the means of satisfying government's voracious appetite?"*

*The need to understand why government grows so rapidly seems urgent. If alarm about the current spending explosion is to lead to effective political countermeasures, if the explosion is to be stopped or even slowed down, we must have some understanding, some explanation of why it is occurring. We must explain the institutional and political processes that produce the results that we see, results that seem fully desirable only to the bureaucrats on the expanding public payrolls."*

**James M. BUCHANAN\***

**Nobel Laureate in Economic Science, 1986**

James M. Buchanan, one of the leading philosophers of our time who spent nearly half a century of his life on public economy research, indicated in his article titled "Why does Government Grow ?" published in 1977 the dangers of the continuous growth in the public economy, and the need to clearly present the reasons and consequences of the growth of the State. To use Buchanan's words, "The need to understand why government grows so rapidly seems urgent." In many of his works, Buchanan underlines the necessity to limit the excessive growth of the State.

In recent years, many philosophers have also pointed out the negative effects of excessive growth of the State. Theoretical and empirical studies carried out in the field of public economy mainly underline the following results:

\* James M. Buchanan; "Why Does Government Grow?", in: T. Bocharing (Ed.) *Budgets and Bureaucrats*, North Carolina: Duke University Press, 1977, s.3

- The economic activities of the State within the national economy increase continuously over the years. Empirical studies and statistical analysis in developing and developed countries clearly indicate that the State is rapidly growing.

- There are economic, political and social reasons behind the growth of the State. In this study, the reasons behind the growth of the State have been analyzed in detail. There is not only one but many reasons for the growth of the State. Population increase, urbanization, industrialization, wars, providing economic development, measures taken for the optimization of social welfare etc. increase the activity of the State. Some of these reasons (for example, rapid population increase) make it necessary for the State to increase its activities. However, sometimes the State grows excessively and unnecessarily due to various reasons. These reasons actually stem from the political decision-making structure. In the political process, ruling party, in order to guarantee reelection, increases public expenditures through unnecessary and artificial decisions and applications. The bureaucracy may also become directly responsible for increasing the budget volume in line with the demand of political power. In short, the State grows either out of necessity or in order to create benefits in the political process and to abuse political power.

- Before submitting any opinion or views on limiting and downsizing the State, the reasons behind the growth of the State and the consequences of such growth must be clearly presented.

- There are economic, social and political consequences to excessive growth. Excessive government first creates serious problems on the economy. The tax and debt burden increase as a result of increasing public expenditures. The heavy tax burden has negative effects on economic growth and development. It also causes the growth of the underground economy and reduces tax revenues. Excessive government also increases the gravity of political problems and political corruption in addition to economic problems. In the Excessive Government, political corruption such as bribery, corruption, embezzlement, pork-barrelling, nepotism etc. increases in extent.

- There is a social cost to Excessive Government. Traditionally, the State is seen as a 'protective', 'corrective', 'improving', 'curing' entity. There is no doubt that the State shall be responsible for providing security for the lives and property of its citizens. In this sense, there is no doubt that the social benefit of the State is very extensive. However, seeing the State as an entity that corrects and improves

everything creates "a collective mentality where everything is expected from the State." This understanding of a Paternalistic State is one of the main reasons underlying the excessive growth of the State.

- The State is absolutely necessary for a good social order. A social order without the State is unthinkable. However, the State is the source of, as well as the solution to, some problems. A "new" philosophy and a "new" public administration paradigm are needed to stop the State from being a problem, but a benefit to the society. The State concept of the 21st century must be different from that of the traditional state approach of the 20th century.

- It is necessary to make realistic assessments and analysis to establish an ideal state towards the 21st century. First of all, certain basic principles have to be accepted for a good or ideal state. A good state must be established on the following principles:

- The first basic principle is that there can not be a " Society without a State" as mentioned above. A society without a state is anarchist.

- An oversized state indicates a tendency towards state totalitarianism. Extremely interventionist social state, corporate state and socialist state are various versions of totalitarianism.

- The ideal state has nothing to do with anarchism and totalitarianism.

- The power and authority of the state are not and can not be limitless. The economic and political power and authority of the state must be limited within constitutional and legal rules. A State without Limits that is not restricted by rules becomes the source of economic, social and political problems.

- The responsibilities and functions of the State, as well as its power and authority in the economic field (for example, the authority to print banknotes, borrowing, taxation etc.), must be limited. Limiting the State does not mean downsizing the State in all areas. What is important is to determine what the State has to do in the economy and what functions and responsibilities it has to undertake. The question that needs to be addressed here is "How much do we need the State", rather than "Is the State necessary?".

- The ideal State for the 21st century is "the small but efficient State". The functions and responsibilities of the State within the national economy must be limited as much as possible and the competitive market economy must be made functional.

- The responsibilities and functions of the State can never be reduced to that of a minimal State. A minimal State, although ideal, is a utopia. In other words, a

State limited to defense, justice and judicial authority is a dream at least for today and the next century.

- The responsibilities and functions of the State are determined by taking into consideration the time location and socio-economic conditions. Therefore, the responsibilities and functions of the State vary from country to country.

- The State must have an institutional identity based on a social contract. This means; in each society, the power and authority of the State, the content and limits of its responsibilities and functions must be determined based on a social consensus and turned into a social contract (Constitution). A State that is not based on a social contract is not legitimate.

- Beyond limiting and downsizing the State, it is the "restructuring of the State" that constitutes the basis of the new public administration paradigm. The limiting and downsizing of the State makes up only an aspect of the reform for restructuring.

This new philosophy and model for a State the basic principles of which are described above is named the "OPTIMAL STATE". Optimal State represents the State concept of the 21st century.

In order to understand the Optimal State philosophy suggested here, it is helpful to compare this philosophy with the traditional understanding of the State. (See: Table)

The State model proposed for the 21st century has a catalytic understanding in that it is not centralized but decentralized; it does not provide goods and services directly to the people but through market mechanisms. Optimal State stresses neither the extremely interventionist State nor the minimal State. Optimal State supports the Limited and Arbitrator State where the responsibilities and functions of the State are reduced as much as possible. Optimal State supports the Rule of Law based on the superiority of the Law and the Individualist State which safeguards the rights and liberties of the individual. Optimal State of the 21st century supports the Liberal State and not the authoritarian and oppressive understanding of the State. The Optimal State represents the Protective Government responsible from the lives and property of its citizens rather than a Paternalistic State which hands out endowments. Optimal State also adopts the understanding of a Responsive State which protects orphans, the elderly, the mentally disabled and the physically disabled. The Responsive State is a concept completely different from the traditional Paternalistic State of the 20th century.

The Optimal State refuses a budget system which is based on a deficit princi-

ple. On the contrary, the State is viewed as an entity that has to spend according to its income. The Optimal State of the 21st century supports the Balanced Budget principle which is based on striking a balance between revenues and expenses.

**Table: A Comparison of the Traditional State Concept with the Optimal State Concept**

<b>Traditional State Concept</b>	<b>Optimal State Concept</b>
Centralist State	Decentralist State
Protectionist State Interventionist Social State	Limited and Responsive State
Minimal State Ultra-Minimal State	Limited State
Entrepreneurial State (State Providing Services)	Catalytic State (State Ensuring That Services Are Provided)
Imposing State	Organizer State (Arbitrator State)
Monopolist State	Competitive State
Closed State/Secret State/ Prohibitive State	Open/Transparent State
Authoritarian/Oppressionist State	Liberal State
Despot/Tyrant State	Democratic State/ Participationist State
Conservative State/ State supporting the Status Quo	Reformist State
State Creating and Distributing Rents	State Encouraging Production
Sacred State	Individualist State (Individual-Centered State)
Spendthrift State	Thrifty State
Paternalist State	Responsive State

The main suggestions of this study pertaining to how the Optimal State philosophy the main principles of which are indicated above can be created in our country can be summarized as follows:

- A “genuine” reform is inevitable in order to create an Optimal State. In order to establish an optimal state in our country, it is necessary to execute the Reform for Restructuring the State.

- The public economy and administration in Turkey is faced with serious problems. In order to overcome these problems, two main reform plans within the framework of the Reform for Restructuring the State need to be created. these are the Reform for Restructuring the Public Economy and the Reform for Restructuring the Public Administration.

- The main objective of the Reform for Restructuring the Public Economy is to determine the most appropriate duties and functions of the state and to determine the principles of the state's economic power and authority according to social agreement. It is inevitable to redefine the economic activities of the state in our country as we approach the 21st century.

- The main objective of the Reform for Restructuring the Public Administration is to rearrange the state's administrative organization and structure. The central administration, local governments and other public institutions must absolutely be restructured.

- The restructuring reforms should be implemented by an Economic and Social Council established with the concept of social agreement in mind. The Economic and Social Council should included representatives of institutions from all social groups.

- The Reform for Restructuring the State envisions changes in all public services and all public institutions. This comprehensive change and reform project which will carry Turkey to the 21st century needs to be carried out according to a strategic plan.

- It will not be easy to implement the reform for restructuring the state in a country which has not even been successful in privatizing its public enterprises in the past decade. The first condition to any reform in this field is to ensure political stability and to have a reconciliatory approach to the issue.

- The restructuring of the public economy and public administration is a project of reconstructing the state. Executing this project requires a serious, sincere and determined effort.

- As it is the case in most societies, the status quo has a suspicious approach to change and reform. Conservatism is widespread in public bureaucracies. The main reason behind this is the political power and bureaucracy's reluctance to abandon the political power and authorities they have. Those who promise to make changes in public administration when they are in opposition fail to resist the tyranny of the status quo when they are in power and are crushed under the despotism of the status quo.

Turkey has to take serious, sincere and determined steps in implementing the 'new' state philosophy of the 21st century.