



# **33<sup>th</sup> International Public Finance Conference/TR**

## **PROCEEDINGS BOOK**



**MAY 8-12, 2018 ANTALYA / TURKEY**



**33.** International Public Finance Conference / Turkey  
Uluslararası Maliye Sempozyumu / Türkiye

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# 33th INTERNATIONAL PUBLIC FINANCE CONFERENCE/TR

May 08–12, 2018

Antalya / TURKEY

**Editor**

**Prof. PhD. Selçuk İPEK**

 **E K İ N**  
Basım Yayın Dağıtım

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## Themes & Topics

### 1. PUBLIC FINANCE THEORY

Public Revenue  
Public Expenditures  
Public Debt  
Public Goods  
Externalities  
Tax Theory  
Tax Burden  
Tax Incidence  
Tax Psychology  
Tax Compliance  
Fiscal Incentive System  
R & D Expenditures  
Local Government Finance  
Taxpayers Behaviour  
Tax and Foreign Direct Investment  
Emerging Economies and Public Finance  
History of Public Finance

### 2. TAX LAW

Principles of Taxation  
Taxpayer's Obligations  
Taxpayer's Rights  
Taxation Process  
Tax Crimes and Faults  
Solution of Tax Disputes  
Tax Administration  
Tax Auditing  
Tax Jurisdiction  
Tax Enforcement  
International Taxation  
Individual Taxation  
Corporate Taxation  
Transfer Pricing  
Tax Avoidance  
Tax Legislative Updates  
E-Taxation System  
Financial Sector Taxation

### 3. FISCAL POLICY

Fiscal Policy  
Public Economics  
Public Sector Balance  
Economic Crisis and Fiscal Policy  
Economic Development and Taxation  
Welfare Economics and Optimal Taxation  
Welfare Economics and Economic Development  
Welfare Economics and Income Distribution  
Debt Burden and Economic Stability  
Political Institutions and Fiscal Capacity  
Income Inequality and Public Policies  
Market Failures and Public Policy  
Innovation and Public Policy  
Efficiency in Public Sector  
Quality of Public Services

### 4. BUDGET and FISCAL PLANNING

Public Budget  
Budget Systems  
Principles of Budget  
Budget Process  
Budget Applications  
Budget Auditing  
Budget Right  
Fiscal Planning  
Participatory Budgeting  
New Budgeting Approach  
Fiscal Transparency and Accountability  
Treasury Operations  
Public Procurement Procedures  
Public Enterprise and Privatization

## Programme

<b>Opening Ceremony</b>	<b>09.30-10.15</b>	<b>09 May 2018 Wednesday</b>	<b>1st Day</b>
<b>Selçuk İPEK</b>	Chair of Organizing Board		
<b>Bünyamin BACAK</b>	Dean of Biga Faculty of Economics and Administrative Sciences		
<b>Yücel ACER</b>	Co-Rector of Çanakkale Onsekiz Mart University		

**Traditional Photo Taking 10.15- 10.30**

**Coffee Break 10.30-10.45**

<b>Keynote Speaker</b>	<b>10.45-12.00</b>	<b>09 May 2018 Wednesday</b>	<b>1st Day</b>
<b>Vito TANZI</b>	How Complexity in Government Operations Leads to Inequality: A Historical Perspective		

**Lunch Time 12.00-13.30**

<b>Session I-A</b>	<b>13.30-15.00</b>	<b>09 May 2018 Wednesday</b>	<b>1st Day</b>
Chair: <b>Fazıl TEKİN</b>			
<b>Orhan ŞENER</b>	Irrationality of Consumer Behaviors with Respect to Turkish Consumers		
<b>Sacit Hadi AKDEDE, Ayla OĞUŞ BİNATLI</b>	Demand for Cultural Goods: The Case of the Turkish Theatregoers		
<b>Abdullah TİRGİL, Recep YORULMAZ</b>	Seasonal Effects of the Smoking Ban in Turkey on Cigarette Consumption		
<b>Yasin ACAR</b>	Is Public Service One of the Determinants of Happiness, Evidence from Province Level in Turkey		

<b>Session I-B</b>	<b>13.30-15.00</b>	<b>09 May 2018 Wednesday</b>	<b>1st Day</b>
Chair: <b>Mehmet Emin PALAMUT</b>			
<b>Nevzat SAYGILIOĞLU</b>	Location of Taxes and Situation of Customs Duties on Law and Economics Perspective		
<b>Şerif Emre GÖKÇAY, Altan RENÇBER</b>	Diverted Profit Tax And Evaluation of Applicability in Turkey		
<b>Hülya KABAKÇI KARADENİZ</b>	Investigation on Turkish Motor Vehicle Taxes for Tax Justice		
<b>Osman Cenk KANCA</b>	The Influence of Motor Vehicle Tax Upon the Automobile Demand		

<b>Session I-C</b>	<b>13.30-15.00</b>	<b>09 May 2018 Wednesday</b>	<b>1st Day</b>
Chair: <b>Nihat FALAY</b>			
<b>Önder ÇALCALI</b>	Comparison of Turkey's Fiscal Decentralization and Autonomy Structure with OECD Countries		Fiscal
<b>Mete DİBO</b>	The Effect of Capital Control on Capital Investments and Foreign Exchange Rates: The Case of Malaysia		
<b>Arman Zafer YALÇIN, Ü. Lütfi YALÇIN, Erkan DAĞLI</b>	Transformation on Local Service: Commercialization in Municipal Services		
<b>Hakan YAVUZ</b>	Real Estate Owners' View of Estate Tax: An Example from Sakarya		

Session I-D	13.30-15.00	09 May 2018 Wednesday	1st Day
Chair: <b>Elif SONSUZOĞLU</b>			
<b>Özgür Mustafa ÖMÜR, Uğur BELLİKLİ, Özlem TÜMER</b>	Thoughts about Tax Evasion in Turkey of Public Finance Scientists		
<b>Burhanettin Onur KİREÇTEPE, Özgür KÜÇÜKTAŞDEMİR</b>	A Brief Information about Harmonization of Tax Evasion Crime with Protocol No.7		
<b>Seda ÖNER, Mehmet CURAL</b>	The Complexity of Turkish Tax Legislation: The Analysis of the Readability of Income Tax Act, Income Tax Return Guides and Brochures		
<b>Nazlı Kübra ÇELİK, Hilmi ÜNSAL</b>	The Situation that Removes the Faultiness in the Scope of Tax Criminal Law: Vis Major and Results		

**Coffee Break 15.00-15.30**

Session II-A	15.30-17.00	09 May 2018 Wednesday	1st Day
Chair: <b>Ziyaettin BİLDİRİCİ</b>			
<b>Adnan GERÇEK</b>	Examination of Duration in Turkish Tax Law in Terms of Taxpayer Rights: Problems and Suggestions		
<b>Engin HEPAKSAZ, Orçun AVCI</b>	The Taxpayer Rights Arising During the Tax Judging Process		
<b>Betül HAYRULLAHOĞLU, Onur GÖK</b>	In the Context of Taxpayer's Right in Tax Auditing the Prohibition of Discrimination: An Analysis within the Frame of a Decision of Constitutional Court		
<b>Abdullah TEKBAŞ</b>	Evaluation of "Türkiye İş Bankası Judgement" of the Constitutional Court		

Session II-B	15.30-17.00	09 May 2018 Wednesday	1st Day
Chair: <b>Oğuz OYAN</b>			
<b>Özhan ÇETİNKAYA</b>	Budget Systems and Evaluation of Turkey		
<b>Recep Emre ERİÇOK</b>	Budget System Approaches in the Context of New Public Finance		
<b>Hüseyin Güçlü ÇİÇEK, Süleyman DİKMEN</b>	The Exemption to the Authority of the President to Send Back the Laws: The Budget Law		
<b>Tekin AKDEMİR, Şahin YEŞİLYURT</b>	Budget Deficit Problems and Financial Consolidation Practices in the Ottoman Empire After the Tanzimat		

Session II-C	15.30-17.00	09 May 2018 Wednesday	1st Day
Chair: <b>Sacit Hadi AKDEDE</b>			
<b>Esra SİVEREKLİ, Hamza ERDOĞDU</b>	An Econometric Analysis of the Relationship Between Economic Growth and Tax Revenues in Turkey: An Ardl-Bounds Test Approach		
<b>Recep YÜCEDOĞRU, Arınç BOZ, Halil Emre SAYGI, Seda ÖNER</b>	How Taxpayers React to Tax Increase? A Qualitative Analysis on Motivational Factors towards Tax Increases on Social Media		

Session II-D	15.30-17.00	09 May 2018 Wednesday	1st Day
Chair: <b>Metin ERDEM</b>			
<b>Mehmet Hanefi TOPAL, Ufuk ÖZER</b>	Relationship Between Unionization and Social Expenditures: Is It Possible to Speak of a Policy-Feedback Effect?		
<b>Müzeyyen Özlem ÇETİN</b>	The Effects of Social Public Expenditures on the Happiness		
<b>Kemal ÇELİK</b>	Pro-Poor Tax Policy in Turkey		
<b>Hakkı Hakan YILMAZ, Nazmiye TEKDEMİR</b>	A Comparative Analysis of Child Poverty in Turkey With EU Countries and Evaluation of Public Policies		
<b>Naci Tolga SARUÇ, Çiğdem BÖRKE TUNALI, IŞIL AYAS</b>	Application Areas of Behavioral Public Finance and Recent Developments		

Session III-A	9.00-10.30	10 May 2018 Thursday	2nd Day
Chair: <b>Metin TAŞ</b>			
<b>Yusuf KARAKOÇ</b>	Tax Justice – Fair Tax System		
<b>Nurettin BİLİCİ, Aziz Erman BAYRAM</b>	Tax-Veiling - Simulation - Tax Avoidance		
<b>Mine UZUN ÇAM</b>	Problems in the Judgment on Accounts		
<b>Funda KARAKOYUN</b>	Events Encountered in Expertise in Terms of Its Effect on Tax Jurisdiction		

Session III-B	9.00-10.30	10 May 2018 Thursday	2nd Day
Chair: <b>Binhan Elif YILMAZ</b>			
<b>Ezgim YAVUZ</b>	Technology Impact in Market Failures: Blockchain		
<b>Esra DOĞAN</b>	A Critical Approach to Counter Productivity Characteristic of Investment Incentives		
<b>Zeynep KARAL ÖNDER</b>	Internal Migration in Development Plans and the Effects of Investment Incentives on Internal Migration		
<b>Mehmet ÖKSÜZ, Murat AYDIN</b>	Fiscal Decentralization Relationship and Regional Competitiveness: The Case of Turkey		

Session III-C	9.00-10.30	10 May 2018 Thursday	2nd Day
Chair: <b>Orhan ŞENER</b>			
<b>M. Mustafa ERDOĞDU, Özkan ZÜLFÜOĞLU</b>	Crowding-In Effect of Public Expenditures: The Case of Turkish Defense Industry		
<b>Alper DUMAN, Sacit Hadi AKDEDE</b>	Inefficiency of Formal Credit Markets and Shadow Economies: Panel Data Analysis		
<b>Abdullah Burhan BAHÇE</b>	A Light on the History of Anatolia (Asia Minor): Taxation in the Hittite Civilization and the Role of Fiscal System in the Destruction of the Hittite Empire		



Session III-D	9.00-10.30	10 May 2018 Thursday	2nd Day
Chair: <b>Özhan ÇETİNKAYA</b>			
<b>Habip DEMİRHAN</b>	The Relation Between Accountability and Culture in Turkey		
<b>Semra ALTINGÖZ ZARPLI, Yasin ACAR</b>	Participatory Budgeting Concept in Turkey and a Comparative Research of Students: The Case of the Bilecik Şeyh Edebali University		
<b>Gonca GÜNGÖR GÖKSU</b>	Relationship Between Economic, Social and Cultural Rights with State Budget: Human Rights Budgeting		
<b>Ali Yıldırım EKER, Hakkı Hakan YILMAZ</b>	Analysis on the Criteria Turkey Fails to Meet Regarding the Evaluation Methodology Amended by Revised Fiscal Transparency Regulation of International Monetary Fund		

**Coffee Break 10.30-11.00**

Session IV-A	11.00-12.30	10 May 2018 Thursday	2nd Day
Chair: <b>Naci Birol MUTER</b>			
<b>Güneri AKALIN</b>	The Shadow Economy is a State Failure		
<b>Furkan BEŞEL, Ahmet GÜLMEZ</b>	The Relationship Between Economic Growth and Interest Rate: An Ampirical Evidence from Turkey		
<b>Semih ŞEN, Mircan YILDIZ TOKATLIOĞLU</b>	Analysis of Contingent Liabilities in Turkey		
<b>Tülin ALTUN</b>	Fiscal Discipline and Fiscal Institutions: Their Relation with Power of the Purse		

Session IV-B	11.00-12.30	10 May 2018 Thursday	2nd Day
Chair: <b>Şerafettin AKSOY</b>			
<b>Salim Ateş OKTAR, Yasemin TAŞKIN</b>	The Applicability of the Rules of Correction Against Tax Mistakes in the Order of Payments of Public Claims in the Extent of Tax Procedure Law		
<b>Hülya KABAKÇI KARADENİZ, Oğuz KARADENİZ</b>	The Causes, Consequences and Recommendations of Self Employed of Undeclared Earning to the Social Security Institution		
<b>Serkan ACUNER</b>	A Comparison of Compulsory Individual Pension Contributions in Terms of Parafiscality		

Session IV-C	11.00-12.30	10 May 2018 Thursday	2nd Day
Chair: <b>M. Erkan ÜYÜMEZ</b>			
<b>Hilal GÖRKEM</b>	Environmental Policies in Turkey: An Evaluation within the Context of the OECD Environmental Policy Stringency Index		
<b>İdris SARISOY</b>	Environment and Waste of Tobacco Products: Proposal of a New Tax		
<b>Muhammed SAMANCI</b>	Role of Fiscal Policy in Reducing Environmental Pollution: Iraq Sample		
<b>Musa GÖK, Arman Zafer YALÇIN</b>	The Political Economy of Urban Water Services in Turkey		

Session IV-D	11.00-12.30	10 May 2018 Thursday	2nd Day
Chair: <b>Yusuf KARAKOÇ</b>			
<b>Orçun AVCI, Zeynep DEMİRCİ</b>	Evaluation of E-Tax Practices in Turkish Tax System		
<b>Zeynep MÜFTÜOĞLU, Özgür KÜÇÜKTAŞDEMİR</b>	Review on General Communique of Tax Procedural Law No. 306 from the Perspective of Tax Criminal Law		
<b>Fatma YAPICI, Leyla Nur ODUNCU</b>	Judgements of the Constitutional Court at Constitutionality Review and Individual Application in the Context of Coase Theorem		
<b>Gökhan SARIÇİMEN</b>	Overview of Proposed Factors on the Presence of Permanent Establishment in the Digital Economy within the Scope of BEPS Action 1		

**Lunch Time 12.30-14.00**

Keynote Speaker	14.00-15.00	10 May 2018 Thursday	2nd Day
<b>Malcolm SAWYER</b>	Exploring the Constraints on the Use of Fiscal Policy		

**Coffee Break 15.00-15.30**

Session V-A	15.30-17.00	10 May 2018 Thursday	2nd Day
Chair: <b>M. Mustafa ERDOĞDU</b>			
<b>İhsan Cemil DEMİR, Ali BALKI</b>	Testing the Wagner Law in Turkey: 1960 – 2016 Period Analysis with Musgrave's and Mann's Models		
<b>Birol KARAKURT, Şadiye OKUTAN</b>	The Validity of Wagner's Law in Turkey Economy: Meso-Level Analysis		
<b>Aslıhan ÖZEL ÖZER, Pelin MASTAR ÖZCAN, Buğra ÖZER</b>	An Evaluation of Share of Turkish Central Government Expenditures within GDP Between 1924 and 2017 in the Background of the Concept "Minimal State"		
<b>Hüseyin ŞEN, Ayşe KAYA</b>	Estimation of Optimal Government Size Based on Alternative Indicators in Turkey		

Session V-B	15.30-17.00	10 May 2018 Thursday	2nd Day
Chair: <b>S. Ateş OKTAR</b>			
<b>Ufuk SELEN</b>	Impact of World Trade Organization Agreements on Public Finance		
<b>Haydar Lütfi EJDİR, Hatice Merve AKSOY</b>	2000 After Inflation Effects of Domestic Debt Management Policy in Turkey		
<b>Hakan HOTUNLUOĞLU, Sercan YAVAN</b>	The Impact of Globalization on Public Expenditures: An Analysis on Former Soviet Union Countries		
<b>Musa GÖK, Özcan KARAHAN, Lütfi YALÇIN</b>	Public Policies Towards Systematic Problems in National Innovation Process		

Session V-C	15.30-17.00	10 May 2018 Thursday	2nd Day
Chair: <b>Adnan GERÇEK</b>			
<b>Ersan ÖZ, Emrah NOYAN</b>	Taxation of Tegnology Giants in Wiew of Global Tax Problems		
<b>Özgür BİYAN, Güneş YILMAZ</b>	A Taxation Problem Caused By Digital Economy: Definition of Virtual Workplace		
<b>Ayşe Yiğit ŞAKAR</b>	The Financial Incentives in Financing of Energy Efficiency in Buildings: A Comparison Between Turkey and European Union		
<b>Abdurrahman TARAKTAŞ</b>	Evaluation of Effectiveness and Enforcement of the European Union Fiscal Compact Agreement for Turkey		

Session V-D	15.30-17.00	10 May 2018 Thursday	2nd Day
Chair: <b>Ufuk BAKKAL</b>			
<b>Rıdvan ENGİN, Semra TAŞ, Selçuk İPEK</b>	Tanzimat Era Fiscal Problems in the Articles of Namık Kemal		
<b>Çağlayan TABAR, Ufuk SELEN</b>	Tax Structure as a Indicator of State Capacity		
<b>Metehan CÖMERT</b>	Fiscal Democracy: A New Concept in Public Finance and Many-Sided Debates		
<b>Gökben GÜNEY, İhsan Erdem SOFRACI</b>	Evaluations on It's Applicability of Tax Friendly a Tax System in Turkey		

Session VI-A	09.00-10.30	11 May 2018 Friday	3rd Day
Chair: <b>Mircan TOKATLIOĞLU</b>			
<b>Filiz GİRAY, Özgür Mustafa ÖMÜR</b>	Analysis of Tax Expenditures Contrary to Principle of Justice in Inheritance and Transfer Tax		
<b>Işıl AYAS, Naci Tolga SARUÇ</b>	Public Policies to Tackle Obesity Problem		
<b>Burcu GEDİZ ORAL, Tuğba ARPAZLI FAZLILAR</b>	Global Public Private Partnerships with Health Focus on Public Services Supply		

Session VI-B	09.00-10.30	11 May 2018 Friday	3rd Day
Chair: <b>Tekin AKDEMİR</b>			
<b>Eda ÜNALAN</b>	Public Private Partnership in The United Kingdom		
<b>Özge ALTINSOY, Adnan GERÇEK</b>	Analysis of the Factors Determining Impact of Revenue Administration Organizational Structure to Tax Compliance in Turkey and Recommendations		
<b>Halil SERBES, Özhan ÇETİNKAYA</b>	An Analysis of Short and Long Term Debt Changes of Metropolitan Municipalities Based on Balance-Sheets (The Period of 2006-2015)		
<b>Mehmet Emin KENANOĞLU, Murat AYDIN</b>	Evaluation of Intelligent Transportation Systems Applied in Various Countries in the Context of Externality		

Session VI-C	09.00-10.30	11 May 2018 Friday	3rd Day
Chair: <b>Güneri AKALIN</b>			
<b>Şafak Ertan ÇOMAKLI, Murat UZUN</b>	The Main Obstacle for The United States of Europe Goal: Delegating the Power of Taxation		
<b>Burçin BOZDOĞANOĞLU</b>	Cryptocurrencies Low Risk for Money Laundering High Risk for Cybercrime: Desperation of Tax Administration or New Future of Taxation		
<b>Recep YÜCEDOĞRU, Burcu İNAM</b>	Municipal Public Services and Tax Compliance: Evidence from Survey Analysis		

Session VI-D	09.00-10.30	11 May 2018 Friday	3rd Day
Chair: <b>Ersan ÖZ</b>			
<b>Funda BUZ, Melike Rana DAYIOĞLU</b>	The Relationship Between Socioeconomic Development and Corruption By Panel Data Analysis		
<b>Zinnur TUNÇ</b>	The Effects of Inheritance and Transfer Tax on the Income Distribution		
<b>Uğur UYGUN, Fatih YARDIMCIOĞLU</b>	Evaluation of Education Expenditures in Turkey and EU Countries: Cluster Analysis		
<b>Mehmet ÖZGÜN, Nagihan ÖZKANCA ANDIÇ</b>	The Role of Government and Non-Governmental Organizations in the Struggle of Poverty		

**Coffee Break 10.30-10.45**

Plenary Session	10.45-11.15	11 May 2018 Friday	3rd Day
<b>General Meeting of The Congress</b>			

# Termites of the State: How Complexity Leads to Inequality

Vito Tanzi

## 1. Introduction

Much of modern economics deals with the short run. The existence of lags, between the time when policies are enacted, or when events occur, and the time when effects are felt, is generally ignored. Lags can lead to un-anticipated results and economists should pay more attention to them. This book – *Termites of the State: How Complexity Leads To Inequality* (Cambridge University Press: 2018) deals with the very long run. It covers three somewhat distinct, though in part overlapping, periods. The first is the period from around 1840 until the 1920s. The second is the period from the Great Depression until around 1980. The third is the post 1980 period until the Great Recession.

The book deals with what is, perhaps, the most important question in economics: what economic role the government, the state, or the public sector, should play in democratic countries with market economies? And how that role becomes more complex under particular policies. This synopsis of the book focuses on the main story. It ignores several important issues discussed in the book.

## 2. The Period before the Great Depression

The economic role of the state has attracted for centuries the attention of philosophers and economists. In the 19<sup>th</sup> Century there were two main, conflicting, schools of thought: *laissez faire* and socialism on this issue. *Laissez-faire* has often been attributed, perhaps not correctly, to Adam Smith who wanted the government to play a more desirable but different role than the one it had been playing during his time. Namely, he wanted a role different from mercantilism.

Socialism had several branches and advocates, during the 19<sup>th</sup> Century. The two most important were: Catholic socialism and Marxist socialism.

Catholicism had always been associated with the need for charity and for sharing, and with the view that private ownership of wealth carries social obligations, on the part of those who own property. This aspect was stressed in the *Rerum Novarum*, an important, economically –focused, Encyclical Letter, issued by Pope Leone XIII, in 1891. Catholic socialism stressed this aspect and could be consistent with a market economy.

Marxist socialism was obviously connected with the writings of Karl Marx. That socialism would not allow a role to the market, nor would it allow private ownership of the means of production. The aim of Marxist socialism was the socialization of the means of production and the centralization of economic decisions. It would eliminate, therefore, both the market and private property. The Marxist view had its first, real -life experiment in Russia, after Lenin's Bolshevik Revolution; and, later, in China, with Mao's Revolution, and in some other

places, such as Cambodia. The results from those experiments are well-known. As economies became more developed and they became more complex, Marxism proved to be a less realistic option in its pure, Marxist form. Idealism was replaced by corruption and a new class, with many privileges, emerged in so-called socialist countries.

**Laissez faire** requires more attention because of its greater relevance for our time, and because there has been some misunderstanding by economists about the role that it had played in the 19<sup>th</sup> Century. The truth is that laissez faire was never a free choice for governments and was never practiced in its pure version.

The term **laissez faire** did not originate with Adam Smith but in France, in the 18<sup>th</sup> Century, when the powerful minister of the King of France, Colbert, during a meeting with French merchants, asked them what the government could do to help them in their activities. One of the merchants, Legendre, replied that the best help that the government could provide to them was by simply staying out of their way, and by “**nous laissez faire**”, let us do our businesses.

At that time **mercantilism** was a common government practice. It was an extreme version of what some now call “crony capitalism”. Governments intervened in many economic activities by creating monopolies or by providing competitive advantages for some privileged citizens. Therefore, in its original interpretation, laissez faire had nothing to do with the level of taxes and public spending, but much to do with bad and arbitrary regulations.

In any case, until the 20<sup>th</sup> Century, governments would not have been able to play the economic roles that many of them now play. The reason was that governments did not have, and could not have had, the financial resources that would have allowed them to play modern economic roles. They could not have had the tax revenue and the bureaucracies needed to finance, supervise, and monitor modern policies. See Tanzi, 2018b--Public debt was also not easily available, and recourse to it was considered bad policy, as the writings of Hume, Smith and others, and statements by prominent leaders, make clear. See Tanzi, 2016. Because of these reasons, laissez faire became a default alternative to mercantilism and not, necessarily, an alternative that would have been chosen by all governments, if they had faced circumstances closer to those faced by today's governments.

Until the 20<sup>th</sup> Century, the tax level of now- advanced countries had generally remained under ten percent of GDP. That level was barely sufficient to cover the public spending (a) to sustain the high standard of living of sovereigns, (b) to pay expenses for defense, (and occasionally for wars), for administration, justice, and essential infrastructure, and (c) for some other public goods. For data and examples for that period see Paul Leroy –Beaulieu (1888). Why were tax levels so low? It was not necessarily because of an explicit policy choice. They were low for objective reasons, and laissez faire was not one of the main reasons, even though, given the reality of the times, classical economists and governments were generally against high taxes.

The reasons for the low taxes were several.

First, few citizens had the right to vote. Those who did were males, owned property, and were willing to pay poll taxes. They would not have been happy to pay higher taxes. The

widening of voting rights, especially during the first half of the 20<sup>th</sup> Century, and the vote by women, increased the demand for higher tax levels by those who voted.

Second, the “ecology of taxation” at that time –see Tanzi, 2018b--made it difficult for governments to collect higher taxes. The industrial revolution, in the second half of the 19<sup>th</sup> Century and the first half of the 20<sup>th</sup> Century, made it possible and easier for governments to collect higher tax revenue. Recall that income taxes and value added taxes came mostly in the 20<sup>th</sup> Century. They now provide most of the countries’ tax revenue. Without the industrial revolution these it would have been very difficult to collect these taxes.

Third, higher tax revenue made it possible for countries to create modern bureaucracies (with Max Weber’s types of bureaucrats) who were better able to monitor modern and complex policies. These bureaucracies did not and could not exist in the 19<sup>th</sup> Century. Higher tax revenue would allow governments to better satisfy new, emerging, collective needs, needs partly connected with the process of industrialization, with new technologies, and with growing urbanization.

An industrialized and urbanized, democratic society demands and needs more public interventions (with spending and regulations) than a more primitive, informal, and rural society. This is a reality that present day libertarians have not grasped, especially in the USA.

The second half of the 19<sup>th</sup> Century did experience many reforms. In fact, some important historians—see, for example, Woodward, [1938] 1961-- have called that period *the age of reform*. However, the reforms enacted at that time were mainly related to claims by industrial workers against the owners of private enterprises, at a time when those enterprises had often monopoly power.

Most of the 19<sup>th</sup> Century’s reforms aimed at changing the relationships between the owners of enterprises, as employers, and dependent workers. They aimed at improving working conditions; at raising wages; at reducing working hours; at demanding vacation time; at raising the age when children could work; at creating the rights of workers to organize and to strike; and at reducing accidents in the places of work. In addition to these reforms, there were pressures on governments to broaden the right to vote. Therefore, most of the 19<sup>th</sup> Century reforms had not been directed towards creating claims, or entitlements, *against the state*, as they would in the 20<sup>th</sup> century, but *against private employers*.

True laissez faire never existed in practice. Or, better, it had never been a genuine, free choice for governments. Classical economists, who at that time had little trust in governments, advocated laissez faire as a lesser evil to the realistic alternative of mercantilism. The attitude of economists at that time led some (August Strindberg, a Swedish dramatist) to argue that “economics [had become] the science by which the economic elite remained the economic elite”.

The most important Italian economist around the middle of the 19<sup>th</sup> Century, who was a true believer in the evil of state intervention at that time, (Francesco Ferrara), in 1853, would write that the use of import duties by the US government was a sin as great as slavery. The USA committed this sin for much of the laissez faire period, and so did several other countries. During the so-called laissez faire period, several countries used import duties, as

protective devices, as development tools, or simply to raise badly needed public revenue. Furthermore, governments intervened with other policies to assist specific industries (cotton, coca cola, petroleum). Laissez faire was often an excuse for not intervening in some areas. It was not necessarily a desirable policy, at least for some governments.

### **3. From The Great Depression to the Supply- Side Revolution: The Creation of Welfare States.**

The situation started to change around the turn of the 19<sup>th</sup> Century, when the industrial revolution had advanced enough to radically transform the social and economic conditions that had existed in the past, and to make the need for new policies increasingly felt. However, real, concrete, changes would come mostly in the 1930s pushed by the Great Depression.

Around the end of the 19<sup>th</sup> Century there would be: (a) Bismarck's welfare reforms in Germany, that provided minimum pensions for workers; (b) influential writings by the German economist Adolph Wagner, that argued that governments should play a role in improving income distributions; (c) the, previously cited, Papal Encyclical Letter; (d) and rising concerns about the uneven income distributions that, in 1912, led an Italian statistician, Corrado Gini, to propose the use of a statistic to measure how uneven a country's income distribution was. This became today's, widely-used, Gini coefficient ; (e) the introduction, in 1913, of the income tax in the USA; (f) the rise of labor unions and the beginning of major strikes; and (g) some other important developments in various countries, including the Bolshevik Revolution in Russia. That revolution would have an impact in several countries on economists who had leftist biases.

Clearly, the old world was being challenged by the ongoing developments, and a new world had started to come into existence. In this new world, laissez faire would be a less appealing ideology for some decades and for an increasing number of economists and politicians. Keynes recognized this in a popular essay, published in 1926, appropriately called The End of Laissez faire. And Roosevelt would also recognize this by introducing the policies of the *New Deal*.

The Great Depression accelerated the change, raising questions, in the mind of some economists, about the wisdom of laissez faire and about the claimed virtue of a free market economy, at a time when unemployment had reached 25 percent and output had collapsed in many countries. In spite of strong, conservative opposition, F. D. Roosevelt introduced the then- radical policies of the New Deal. Also, the Keynesian countercyclical fiscal policy was proposed and started to be tried in the USA.

The *redistribution* and the *stabilization* roles of the state would become integral parts of government operations as Musgrave, 1959, recognized in his influential treatise. The two World Wars also contributed to the changes, by teaching countries how to raise more taxes and by creating obligations by governments towards those who had fought in the two wars and towards their families. See the classic book by Peacock and Wiseman, 1961.



By the end of World War Two: (a) many advanced countries were facing more friendly tax ecologies; (b) in democratic countries most citizens (including women) had acquired the right to vote; (c) advanced countries had become more urbanized; and (d) the attitudes of many, though by no means all, economists, had changed, about a potentially beneficial role that governments with more resources and with better administrations could play in promoting the welfare of citizens. This role continued to be opposed by conservative economists and especially by those who belonged to the Austrian School, and, in later years, to the Chicago School and the School of Public Choice.

The Beveridge Reforms Proposal of 1942, in the UK, a “fire chat” by Roosevelt in 1944, and Eisenhower’s presidential acceptance speech in 1950 (in which he referred many times to the government role), were all indications of the ideological shift that had taken place and that was being increasingly recognized, even in conservative circles.

The age of the Keynesian Revolution and of welfare reforms, and the beginning of full-fledged welfare states in several advanced countries had arrived. By this time the structures of the economies had changed, allowing governments to collect higher tax revenue and to create the bureaucratic apparatuses needed to implement and monitor more complex government programs. For the growing role of public bureaucracies in the USA during the Great Depression, see Fogel, 2000.

In the decades between the 1940s and the 1970s the levels of taxation and of public spending grew significantly in most advanced countries. The tax level rose from an average of around 13 percent of GDP, at the beginning of the century, to reach levels that in later decades exceeded 30, or even 40, percent of GDP. See Tanzi and Schuknecht, 2000. The levels of public debt also increased, because Keynesian economics had made public debt appear less sinful, even when it was contracted in peace-time, than it had been considered in the past. See Tanzi, 2016.

The use of regulations-- not just to control mainly the profits of monopolies, as it had been done in the recent past, but to reduce new forms of negative externalities, (created by the actions of individuals and, especially, enterprises)-- increased correspondingly. The new urbanized setting in which many people now lived, and the growth of large cities, in countries with deepening industrial activities, made more evident than it had been in the past that some negative externalities (pollution, traffic congestion, non-hygienic behavior and others) needed to be better controlled by governmental action.

The Great Depression had left deep scars caused by the losses of income, experienced by many workers and their families, at a time when there had been no formal safety nets. This experience had contributed to increase popular support for social programs (and also for progressive taxes) in many advanced countries. The income tax came to be considered an “ideal tax” in some surveys taken at that time. The new social programs that were introduced in those years, financed by tax systems that had become more progressive, led, until the 1980s, to significant improvement in the income distributions.

At that time there was a bifurcation of the road that was taken by different governments of advanced countries. Some chose to raise the tax levels enough to finance mainly

government programs that were accessible (free or at highly subsidized rates) to all citizens, regardless of their income levels. Several European countries (especially Scandinavian countries and some others) chose this “universal” route. Other countries, especially the USA and some other Anglo-Saxon countries, chose mainly the “means-tested” route, a route that limited access to the programs to only citizens that met certain income criteria.

The universal programs tended to be administratively simpler, but were more costly. Therefore, they required higher tax levels. The means- tested programs were less expensive, but they tended to be more complex administratively. Specific decisions and more administrative resources were needed to determine and to control accessibility to them by citizens.

The countries that relied on universal programs also kept the tax systems less complex and more broad-based to be able to raise more revenue. For them the main objective of taxation remained the generation of revenue, respecting some criterion of vertical equity. On the other hand, the countries that relied on the means-tested programs chose more complex tax system, to achieve particular social or economic objectives considered desirable. These countries relied more on income taxes and made more use of “tax expenditures”, “tax incentives”, “special deductions”, and other strategies aimed at achieving various social objectives directly through the tax systems. Inevitably, the result was greater tax complexity.

Tax complexity also tends to grow with time. In the USA the tax code and the related regulations now require around 90 thousand pages, compared with only about 500 pages until World War Two. Inevitably, and not surprisingly, “compliance costs” and taxpayers’ complaints, about the complexity of taxes, rose significantly. Taxpayers felt that they were burdened by the taxes, even though the tax level in the USA had changed much less over the past half century, and in other Anglo Saxon countries it had changed less than in several advanced European countries.

What, the author of this paper has described elsewhere as a “Fundamental Law of Public Expenditure Growth” – see Tanzi, 2013, chapter 14-- argues that access to means-tested programs tends to grow with time, because of political pressures, bureaucratic maneuvers to make the programs more accessible, and increasing abuses and corruption. See, for example, CBO (USA), 2013, for the US experience with Medicaid, food stamps and other means-tested programs.

Means -tested programs tend to create “poverty traps because some individuals in the programs, who might be able to get jobs and earn higher incomes, would loose the public subsidies if they did get jobs. These losses can resemble those experienced by individuals who face high marginal tax rates. Poverty traps can create dependency on the public programs and can reduce efficiency.

By the 1970s taxes had generally become heavier, more progressive, and generally more complex, creating possible disincentive effects for working taxpayers. This led to growing concerns by some economists, and to growing opposition to the high and progressive tax

rates and to the social programs that had required the high taxes. These reactions were especially felt in the Anglo Saxon countries, the countries with means -tested programs.

By the second half of the 1970s, the potential disincentive effects of high taxes and welfare programs, together with growing concerns about government inefficiency and about reported uses and abuses of means-tested programs by *non -deserving* individuals and concerns about the role that public sector unions were playing in some areas (public schools and public enterprises), by making it difficult to fire inefficient or corrupt workers, were being highly publicized and were influencing the public opinion, which would lead to the election of some very conservative leaders in several countries.

#### 4. Toward Market Fundamentalism

In the 1970s, conservative economists, such as Friedman, Hayek, Buchanan and some others, started attracting more attention and more followers to their anti or small-government views than they had done previously. The Chicago School and the School of Public Choice had become influential by that time. They had created strong oppositions to high tax rates and to welfare programs, especially in the countries where the programs were means-tested and the taxes had high marginal rates and significant personal exemptions. By that time the government had come to be seen, by some important political figures, (Reagan and Thatcher and others), as an enemy of the capitalistic system, or a Leviathan to be controlled.

The “Laffer Curve”, the “Ricardian Equivalence Hypothesis”, “Rational Expectations Theories”, and others had attracted large followings among academic economists and in some political circles. The political winds were changing rapidly at that time, from those that had blown in the earlier, pro-government decades. The winds were creating skeptical attitudes toward the large, economic role that the state had assumed in earlier decades. The ground for the pro- market, supply-side revolution, and for the coming of conservative governments, had been created.

The supply-side revolution would contribute to the election of highly conservative policymakers in important countries (UK, USA and some others). It would also make market fundamentalism a popular ideology. In some sense, this could be seen as a return to the *laissez faire* ideology that classical economists had promoted a century earlier. In the 1980s and 1990s many would come to believe that the market could solve many problems, if it were just allowed to, without impediments by governments. High tax rates and regulations came under attack in those years.

Perhaps of equal importance is the fact that the results of the market-- in terms of income generation and distribution and in terms of the assignment of values to economic activities-- acquired an almost ethical justification. See, Sandel, 2012. The scope of the market was expanded, by economists, such as Gary Becker and others, to encroach on, or to replace, some values that in the past had been based on traditional, community norms. It was argued, and many came to believe, that market outcomes were always right and that they should not be challenged. This in time would justify obscenely-high incomes for some individuals while the marginal tax rates on those incomes were sharply reduced

A period of privatization followed in many areas, (pensions, schools, jails, infrastructures, fighting wars, and even in the resolutions of some disputes between employees and enterprises). Important changes in the tax systems (dramatic reductions in marginal tax rates, changes in the “architecture” of the income tax, which gave preferential treatment to incomes from capital sources, and some others) were made in the 1980s and 1990s. In important sectors (such as the financial market and the labor market) regulations were reduced. Labor unions lost much of the powers that they had acquired in past years to balance that of the enterprises.

The supply-side revolution had been expected by its supporters to generate miracles in terms of economic efficiency and economic growth, without making the income distributions less equitable. “Trickle down” effects would assure that everyone benefited from the new policies. Unfortunately, in the years that followed, growth did not pick up significantly and the growth that occurred did not benefit a large share of the workers. The income distributions of many countries, and especially that of the USA, became much less equal. The expected trickle down effect did not raise the wages of average workers.

The supply-side revolution had come at a time when both the operations of the market and the activities of governments (including the operations of social programs and the writing of laws and regulations) were becoming increasingly complex. The growing complexity had created opportunities for clever, but at times less scrupulous individuals, and for lobbyists representing special interests, to exploit both the operations of the complex market and those of the governments. The fact that some sectors had become much less regulated, or that existing regulations could more often be reinterpreted, had created opportunities for some individuals and enterprises to extract rents. This new environment would lead to the financial crisis of 2008 and to the Great Recession. An increasing number of observers would start defining the capitalistic system, as it was operating at that time, as “crony” or “casino” capitalism. See Sinn, 2010.

With the passing of time, with the impact of new technological developments, and with globalized economic activities, the free market had definitely changed in important ways. It had come to resemble less and less the market described and idealized by Hayek and the Austrian School, and by Friedman and the Chicago School. It was characterized by an increasing number of exchanges that George Akerlof, 1970, had described as “lemons”. These were market exchange in which symmetry in the information that should be available to the two sides of the exchange was missing.

The presence of “lemons” in many exchanges (the presence of asymmetries in information between sellers and buyers) had increased significantly over the years. As a consequence, some or many of the market exchanges could no longer be assumed to be welfare improving, as they had been assumed to be by Hayek and Friedman.

The economic sectors in which asymmetry in information could exist, between buyers and sellers, were growing in importance and as shares of the countries’ GDPs. Examples of these sectors were: finance, that had become complex and global; insurance; health; house and

car repairs; provision of various services, including tourism and legal services; exchanges of goods across frontiers; and others.

Many products and services had become too complex to be easily understood by most citizens, and many products (including the growing share of “fakes” in the market) were no longer bought from nearby suppliers known to the buyers, as they had been in the past, when economic activities had been mostly local, and exchanges had been among locals. Many of the products consumed in modern globalized economies are imported from far away places and from unknown producers.

The asymmetry reduced the *ex post* benefits expected from market exchanges. *Ex ante*, it has become more difficult for an individual to know precisely the real value of what he or she is getting, from an exchange or from a contract. See, for example, what happened in many of the financial transactions that led to the “sub-prime crisis”. Often the terms of formal contracts are now buried in fine prints, and the contracts are written in “legalese”, a language that only few read or, if they do read them, can understand.

The asymmetry in information worked its way also into many of the operations of the public sector, including the drafting of laws and regulations and their interpretations. New laws often became thousands of pages long and, because of their length, they were approved by legislators and policymakers who in many cases had not even read them. As a consequence of the above, what could be called *termites* (such as the work of lobbies) could more easily penetrate the writing of the laws and the regulations, and/or their interpretations.

The existing laws have grown in numbers (in many countries to many thousands) and in complexity. This development has created an almost impenetrable legal jungle for most citizens, one that can be easily exploited by clever representatives of special interests. The result has been a less transparent form of the outcome that had prevailed during the times of mercantilism: privileged or clever individuals have been the major beneficiaries of some of the governments’ activities.

## **5. Impact on Income Distributions**

During the decades of the 1980s and 1990s marginal tax rates were dramatically reduced for high income individuals, at a time when the incomes received by individuals at the top of the income distribution (say at the top 1% were increasing sharply and in some cases were acquiring characteristics that made them resemble more to “rents” (i.e. partly unearned incomes) than to truly earned and deserved incomes. This development contributed to the growing skepticism that has developed about the ethics of the market.

## **6. The Coming of the Perfect Storm**

The decades after the 1970s experienced what could be defined as a perfect storm. It was a storm that, in many countries and especially in the USA, led to income distributions that became as uneven as they had been in the 1920s. The share of total income received by those at the top 1 or 0.1 percent of the income distributions increased dramatically, while

the average incomes of workers stagnated. Top income earners appropriated much of the growth in national income and there was no trickle down.

Perfect storms have many elements that combine in unanticipated ways contributing to their power. Some of these elements are mentioned below, without elaboration, due to time constraint. Many though not all of them were connected with the market fundamentalism that influenced the 1980s and the 1990s.

The first element of the storm was the role played by the expanding and government-protected concept of intellectual property. Over the years, technological developments and public policies had created possibilities (for some of the owners of intellectual property) to extract large rents from what were essentially unregulated but at times highly profitable monopolies. In many cases, the same genuine effort by an individual that in the past would have earned that individual a modest income, led to very high incomes. The change was due to government policies that protected the individual's intellectual property rights, and the (temporary) monopoly over some output. Combined with technological developments (that had been largely publicly financed), it became possible for the owners of intellectual property to sell its output to a huge number of buyers world-wide.

The second element of the storm was the novel view, promoted by some economists in the 1970s and 1980s, that financial incentives can have a great impact on the performance and the productivity of particular individuals, especially managers. This novel view came to justify the asking for, and the giving of, huge bonuses and large compensations for CEOs and other managers, while it also encouraged the squeezing of the wages of normal workers. For the latter, the incentives were not assumed to be important. The average compensation of managers rose from the five times the average wages of workers, that the first Nobel Prize in Economics, Ian Tinbergen, had considered desirable, and from the 20 times assumed to be desirable by the famed, management expert, Peter Drucker, to levels that at times reached or exceeded 500 times.

There was no longer any embarrassment on the part of managers to ask for and to obtain compensations that in some cases reached hundred times that of the US president. Furthermore, some managers got these high compensations even when the performance of the enterprises that they managed was far from admirable. If the market was always right and if its outcome should not be questioned, as mentioned earlier, these compensations seemed justified.

The third element of the storm was the changes in the tax systems that occurred in many countries, in the 1980s and the 1990s. In those years the marginal tax rates for high incomes were dramatically reduced, taxes on capital income were slashed, and the growing complexity in tax systems, combined with the effects of globalization, created many new opportunities, for high net worth individuals (HNWIs) and for corporations, to evade or to avoid paying taxes. HNWIs benefited enormously from these changes.

Other factors such as deregulation, the weakening of labor unions, and some others mentioned, also played some roles in changing the social and economic landscape in the past three decades.

The final, concluding question that must be raised is whether a market economy with still a democratic system can survive in societies where the income distributions have become very uneven and have created a new class of privileged individuals who increasingly feel that they are different from the rest. This was the situation that had existed in the old world, and that still existed before the Great Depression. In 1926, John Maynard Keynes had called for new knowledge to deal with that situation. New knowledge may be highly needed at this time. Without it, the world may move in unanticipated and not necessarily desirable directions.

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# **Irrationality of Consumer Behaviors with Respect to Turkish Consumers**

**Orhan Şener<sup>1</sup>**

## **1. Introduction**

Irrational consumer behaviors is becoming one of the most important issue in modern economics understanding. This is because of the fact that, irrational consumer behaviors result in decreasing level of savings, distortions in efficiency in resource allocation and unfair income distributions. On the other hand, it spoils the value judgments of the society, leading to waste and corruption in both public and private sectors. The aim of this paper is to explain why the free market understanding based on rational human behavior can not be justified. In order to support my view, I summarize the basic views of behavioral economics and heterodox economics that became popular after 1970's. I also analyze the effect of irrational consumer behaviors on the main goal of public economics; namely efficiency in resource allocation, fairness of income distribution and sustaining macro economic stabilization. Thus, in the first section, irrational behaviors of the consumer as explained by Kahneman, Tversky, Veblen, Akerlof, Pareto and Minsky are summarized (Şener, 2015:193-202). The second section includes some concepts against rational human behavior, developed by heterodox economists such as Lorenz and Minsky. Based on some irrational behaviors of Turkish consumers, I conclude that fiscal policy measures need to be taken in taxation and public expenditures in order to cope with unwanted effect of irrationalities.

## **2. Theoretical Background**

Tversky and Kahneman are the pioneers in establishing the basis principles of this new branch of Behavioral Economics in 1970s. They argue that as proclaimed by Adam Smith; "people behave along with their self-interest, selfishness and rational motivations" doesn't hold true in real life. They also provided insights into the explaining very complex economic behaviors of human beings (Kahneman D. and Tversky A. 2003: 102). This chapter also includes conspicuous consumption motivation which is very affective in shaping Turkish consumers and politicians.

## **3. Heterodox Economics**

They developed many branches of heterodox issues such as; behavioral economics, asymmetric information, Power Law, happy economics, financial instability and complex systems of uncertainties. Some concepts such as bounded rationality, the market for lemons, 20 to 80 Law, happy economics, feminist economists approaches, Minsky's Crash Prone theory and Ethics are explained briefly. These approaches and theories developed by the heterodox economists exert heavy influence over Turkish consumers.

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#### 4. Examples of Behaviors of Turkish Consumers

Followings are the selected examples leading Turkish behaviors to act irrationally in taking economic decisions complying with the above theoretical approaches.

- Boys start to smoke, thinking of they are recognized as a grown up man by the society.
- Trap prices attract many consumer as in Western societies.
- According to a survey conducted in 2000s, Turkish consumers ranked number 1, all over the European countries in buying Nokia mobile phones.
- Number of the cars is the highest in Turkey as compared to European countries.
- Consumers buy houses with one extra room to be allocated to guests.
- Members of low income families buy very expensive mobile phones.
- Number of the summer houses owned by the middle class, in costal areas exceeds 2 millions, even though most of them are used only few weeks in a year.
- Number of the Mercedes cars in Turkey, exceeds the total number of the same brand cars in European countries.
- Rich families generally send their kids to universities abroad, without considering the quality of the education.
- Wives urge their husbands to buy luxury cars, villas, and yachts to keep up with their neighbors.
- Businessmen never report their counterparts who evade taxes and conducting unofficial and illegal economic activities.
- Framing and false advertisements changes the true preferences of consumers in buying goods that they really need.
- Although Turkey is rich in grape product, however wine production is the least in EU, due to religious value judgments
- Many investors never deposit their savings at bank, but they prefer to receive profit shares from the Islamic banks, which is more or less equal to market interest rate.
- Workers, governmental employees, low income families support the right wing political parties. Whereas intellectuals support social democratic party.
- Turkish workers abroad support social democratic and left wing parties, whereas they support right wing political parties at home.
- Many people in Turkey buy medicine on the recommendation from the friends, neighbors or pharmacists.
- Some rich people urge luxury restaurants to charge highest prices, so that everyone wouldn't support to eat there.

#### 5. Conclusion

There are too many irrational behaviors of Turkish consumers resulting in inefficient use of scarce sources and adversely affecting political decision making process leading to corruption and waste in budgetary funds. Most of the irrational behaviors are closely related to the value judgments and traditions of the society calling for long term solutions which is not the subject matter of this paper. However, most of the above stated irrational behaviors of Turkish consumers can be corrected through fiscal policy measures. For instance, although bicycle roads are constructed in some areas in İstanbul, but only few people use it. Bicycle riding can be encouraged at elementary school through providing bikes free of

charge to students and enforce them to ride in commuting. This also calls for giving priority to constructing bicycle roads, so that workers and all students could use it. As to irrational behaviors of both consumers and politicians, a general wealth tax is the most appropriate measure to be employed. Imposing heavy taxes discourages of buying those luxury goods and services whose demand is closely related to the conspicuous consumption motivations. Lastly, positive ethical value judgments must be thought at all level of schoolings.

**Key Words:** Behavioral Economics, Heterodox Economics, Conspicuous Consumption, Veblen Effect, Bandwagon Effect

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# Demand for Cultural Goods: The Case of the Turkish Theatregoers

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## 1. Introduction

Theatre as a cultural good and service is one of the mission goods in Turkey. Since the beginning of the Modern Turkish Republic, theatre as cultural good and service has been heavily subsidized by the central government. Turkish State Theatres (TST) has been one of the leading cultural institution in Turkey. As is well known, cultural goods must be consumed repeatedly before they can become part of a country's cultural identity. Studying theatre attendance is therefore important for identifying which factors can increase cultural participation and sustain cultural identity. In this paper, we concentrate on factors that determine theatre attendance because. Cultural goods can differ from other goods and services in terms of pattern of consumption and demand. Most cultural goods can be viewed as experienced goods. In other words, the demand for cultural goods at current time might depend on past consumption.

## 2. Literature Review

Attendance to or consumption of cultural goods and services have been investigated by numerous econometric studies before. Some of these studies model demand for cultural goods using data from a single time period (e.g. Borgonovi 2004; Ateca-Amestoy 2008), whilst other studies use a panel of cross-sectional and time series data (Werck and Heyndels 2007; Zieba 2009), both use standard economic variables to estimate price and income elasticities. Previous studies on theatre attendance can be divided into two groups: aggregate demand (e.g. Bonato et al. 1990; Zieba 2009) and individual-level demand (e.g. Borgonovi 2004; Ateca-Amestoy 2008). To estimate aggregate demand for theatre, researchers model the relationship between attendance and price and income elasticities at the aggregates of city, province, or country level, also in the presence of other cultural economic goods. The data are usually derived from national institutions such as National Endowments for the Arts, Art Council, etc. The individual-level group of studies aim to identify the determinants of individual-level demand for theatre. These studies also test other hypotheses such as whether demand for theatre is influenced by the joint participation of a spouse or to participation in other cultural goods such as the cinema and theatre. The main difference in the data use in this second category is the fact that data are usually derived by various surveys conducted by different institutions.

## 3. Basic Estimation Model

Cook and Moor (1995) developed a model of addictive good demand based on a "myopic" assumption under which the consumer bases his present consumption on past consumption but does not anticipate that future consumption depends on past and present consumption.

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The consumer's utility is then a function of past and present consumption of the addictive good as well as consumption of a composite good with unit price. Assuming addictive theatre demand, the consumer's utility function can be defined as

$$\text{Utility} = f(\text{Current consumption, past consumption, composite good})$$

The coefficient of past consumption must be significant and positive if theatre demand is characterized by myopic addiction. When we include future consumption to the model, we test the rational addiction since current consumption might affect the future consumption.

### 3.1. Data and Descriptive Statistics

We use a panel estimation with 81 provinces and 7 years (2007-2014) to investigate the determinants of theatre attendance. All the data come from the Turkish Statistical Institute (TSI)

**Table1**

Variable	Obs	Mean	Std Dev	Min	Max
Attendance_theatre	810	.0342467	.0422523	0	.3459266
Attendance_cinema	810	.3035455	.2734777	0	1.328291
Price_cinema	1,134	8.407676	2.572694	0	17.5783
Price_theatre	1,134	3.980362	4.213686	0	44.1708
Number of Films	1,377	408.0574	1188.548	0	16806
Number of Plays	1,377	37.66304	224.1263	0	3810
Income	890	12040.74	6304.087	2764.558	43645.16
Education	648	.263164	.4551232	.0072307	10.53036

### 3.2. Regression Analysis

**Table 2. Regression Analysis**

	Theatre			
Attendance(t-1)	.1436561* (.0621764)	.1523443* (.0620529)	.1609402* (.0619817)	.2444619* (.0851133)
Price	-.0000651 (.0009133)	.0003284 (.000873)	- .0000784 (.0009181)	-.0004054 (.0010555)
Price(t-1)		.0019626* (.0009207)		
Other price			.0061043* (.0026549)	
Income	1.29e-06* (3.61e-07)	9.28e-07* (3.85e-07)	-3.11e-07 (8.03e-07)	-4.28e-08 (5.01e-07)
Education				.000082 (.0024939)
Number of Films/Plays				.0000569* (.0000187)
Crisis Dummy				- .0084503* (.0041334)

Constant	.0117831* (.0051685)	.0085424 (.0051616)	-.0139864 (.0119099)	.0291703 (.0078941)
Obs	485	485	485	404
Groups	81	81	81	81
Instruments	24	25	25	26
Wald $\chi^2$	22.27*	29.77*	30.26*	36.54*

\* Indicates significance at 5 %

It is shown in the Table 2 that past consumption has a positive effect on current consumption. This is called myopic addiction. Price has a negative effect on the attendance as expected. Attendance is increasing by the number of plays, and finally economic crisis affects attendance negatively.

#### 4. Conclusion

We have found myopic addition in theatre consumption. Past consumption is positively affecting current consumption of theatre. We have run various regressions with different combinations to investigate the income and price effect also. In regression 3, it is observable that cinema price has a positive and significant sign. It shows that increases in cinema price can shift the demand toward theatre consumption.

**Key Words:** Rational Addiction, Theatre Attendance, Panel Estimation, Turkey.

**JEL Codes:** Z10, D12, C32, L82

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# Seasonal Effects of the Smoking Ban in Turkey on Cigarette Consumption

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## 1. Introduction

Tobacco consumption is the foremost reason of lung cancer disease, cardiovascular death, chronic obstructive pulmonary disease mortality, and many others in developed nations (Chaloupka & Warner, 2000). Due to this fact, governments across the world take precautions to prevent their citizens from the harmful effects of smoking by executing tobacco control policies such as increasing taxes on tobacco products. In addition, non-price controls are significant tools to prevent tobacco consumption such as tobacco advertising bans and prohibiting indoor smoking in public places.

Turkey adopted a series of anti-tobacco policies started in May 2008 by prohibiting smoking in all enclosed public places and work places. On July 2009, this policy was extended to encompass hospitality sector such as hotels, Turkish cafés, restaurants, bars, etc. (Warren et. al., 2012; Yurekli et. al., 2010). They also set endless efforts into action for raising excise taxes on tobacco products to decline the demand for these commodities. In the process of creating smoke-free zones in Turkey, all these policies were accepted nationwide especially among the citizens.

## 2. Literature Review

There is vast amount of literature on smoking especially for developed nations. Some studies show that anti-smoking policies have a positive impact on reducing cigarette consumption (Wasserman et. al., 1991). Conversely, some other studies report that public intervention has no effect on cigarette consumption (Jones et. al., 2015). For Turkey, studies are missing the most important change in public policy effecting tobacco consumption across the country (Tansel, 1993).

## 3. Methodology

In this study, we compare per pack per adult monthly cigarette sales before and after the tobacco regulations (including price and non-price measures) to see the effect of these anti-smoking measures on declining cigarette consumption in Turkey. Using monthly sales data (proxied for consumption) from Tobacco and Alcohol Market Regulatory Agency (TAPDK), we study the impact of the first smoking ban on cigarette consumption by looking at seasonal changes in Turkey. Especially, we focus on exploring the seasonal consumption shifts before and after the policy went into effect in 2008.

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## 4. Conclusion

Our results indicate that the enforcement of the early law in 1996 against tobacco use in public places was too weak. As a result, cigarette consumption increased until 2000s. We also present results after the public smoking regulations were implemented in 2008, which shows an immediate decline in cigarette consumption for adult population. Our findings also illustrate that prices are mostly determined by the changes in taxes.

Evidently, the smoking ban in Turkey in 2008 had a positive impact on declining the demand for cigarettes. After fully enforcing the ban, people are less likely to smoke during the winter months, which would then reduce the cigarette consumption considerably. It is more convenient for smokers to go outside to smoke during the spring and summer months. Smoking peaks during July and August and it begins declining right after these months. Most importantly, our findings indicate that the public smoking bans in Turkey had a great impact on reducing cigarette consumption when it is measured by monthly cigarette consumption.

**Key Words:** Seasonal Effect, Public Smoking Ban, Anti-tobacco Regulations

**JEL Codes:** I10, I18

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# Is Public Service One of the Determinants of Happiness, Evidence from Province Level in Turkey

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## 1. Introduction

The economics of happiness is a branch of public economics that explores how individuals can improve their life satisfaction by using public policies. One of the standard hypotheses in microeconomic theory is that, *ceteris paribus*, the more preferences of individuals, the higher the quality of life. The reason for this is that individuals who more preferences over actions, they will maximize their own well-being. Higher income is associated with the number of preferences; higher income level will mean higher happiness. Marginal utility is defined as the change in the consumption of an additional unit of goods or service to total profit. When the consumption of a good or service is increased in equal amounts according to the law of decreasing marginal utility, the marginal utility is gradually decreasing. For this reason, individuals have to increase their total benefits, hence their happiness, and they are directly proportional to the variety of goods or services they have. In addition, the literature on happiness economics shows that there can be many variables that affect an individual's level of happiness. Individual health, public health policies, individual safety, social life are just a few of them. In this study, it was tried to determine the factors affecting happiness in the province based on the indexes collected from the life satisfaction survey of 2015 TURKSTAT.

There are numerous studies endeavouring to explain the question of what determines the happiness. For instance, (Bonini, 2008) adds to the literature on subjective well-being and life satisfaction by exploring variation in individual life satisfaction across countries. He finds that there is significant variation in life satisfaction across countries. There is also significant variation in the slopes of individual predictors of life satisfaction across countries and regions.

(Kye and Park, 2014) conduct a study using multiple-stratified random sampling on the Korea Census of 2005. In October 2009, investigators conducted 15-min face-to-face interviews with 1,530 South Korean volunteers aged between 30 and 69 years. The multivariate analysis revealed that middle-aged participants were less likely to be happy than younger and older participants, and higher happiness was associated with being part of a couple, higher income, lower stress, healthy diet, exercise, and certain exercise environments (e.g., mountain trails).

In a paper investigating the relationship between happiness (utility) and a host of socio-economic variables in a random sample of over 5,000 individuals from the Swedish adult population, the results show that happiness increases with income, health and education and decreases with unemployment, urbanisation, being single, and male gender (Gerdtham and Johannesson, 2001).

In a province-level study for Turkey, unemployment rates, number of residential sales rates, share of total tax revenues in the total collection, general budget tax revenue collection/

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accrual rate, divorce rate, per capita electricity consumption, population density in happier provinces are less than unhappy provinces (Beşel, 2015).

## 2. Data and Methodology

Well-Being Index for Provinces as a study on the province level aims to measure, compare and keep track in time of the well-being of individuals and households on distinct life dimensions, using objective and subjective criteria. In accordance with this purposes 11 dimensions and 41 indicators are determined. Rather than 11 dimensions, we use their indicators, which are a more detailed, in this study. Those dimensions are housing, work life, income and wealth, health, education, environment, safety, civic engagement, access to infrastructure services, social life and life satisfaction. All provinces (81 provinces) are included. Since Turkish Statistical Institute published province level data only for 2015, we employ a cross-sectional analysis in this study. Even if this method limits us to make an inference for a causal relationship between dependent variable and independent variables, at least it provides some explanation about the determinants of life satisfaction in province level in Turkey.

The linear regression we utilize in this study is as follows:

$$y_i = \beta_1 + \beta X_i + \epsilon_i$$

where  $y_i$  is the life satisfaction in province  $i$ ,  $X_i$ 's the independent variables, satisfaction rate with health status, satisfaction rate with public health services, satisfaction rate with municipal cleaning services, percentage of people feeling safe when walking alone at night, satisfaction rate with public safety services, murder rate (per million people).

## 3. Empirical Results

**Table 1: Regression Results**

VARIABLES	(1) Happine SS	(2) Happine SS	(3) Happine SS	(4) Happine SS	(5) Happine SS	(6) Happine SS	(7) Happine SS	(8) Happine SS
Health	1.002** *	0.878** *	1.099** *	1.041** *	0.967** *	0.924** *	0.873** *	0.826** *
	(0.134)	(0.180)	(0.133)	(0.122)	(0.105)	(0.172)	(0.174)	(0.183)
Public Health Services		0.143	0.366** *	0.208	0.436** *	0.438** *	0.415** *	0.384**
		(0.137)	(0.109)	(0.130)	(0.149)	(0.147)	(0.150)	(0.151)
Municipal Cleaning			0.285** *	0.260** *	0.257** *	0.262** *	0.246** *	0.269** *
			(0.0447)	(0.0474)	(0.0451)	(0.0453)	(0.0410)	(0.0528)
Feel Safe Alone				0.198**	0.273** *	0.259** *	0.264** *	0.251** *
				(0.0756)	(0.0792)	(0.0811)	(0.0728)	(0.0784)

Public Safety					-0.319*	-0.322*	-0.324*	-0.293
					(0.181)	(0.180)	(0.178)	(0.191)
Social Life						0.0353	0.0219	0.0159
						(0.102)	(0.0990)	(0.0976)
Murder Rate							-	-
							0.118**	0.104**
							*	
							(0.0386)	(0.0412)
Fail to Basic Needs								-0.0776
								(0.0812)
Constant	-11.01	-13.16	-	-	-17.30*	-14.77	-6.856	2.612
			28.05**	26.62**				
			*	*				
	(9.727)	(9.867)	(7.600)	(7.565)	(9.490)	(12.05)	(12.54)	(14.31)
Observations	81	81	81	81	81	81	81	81
R-squared	0.350	0.364	0.563	0.599	0.620	0.621	0.649	0.652

Robust standard errors in parentheses

\*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Regressions will be interpreted by adding each additional argument to the model. The purpose of doing this is to see better the variables that affect happiness and do not affect. There is only health variable as an independent variable in the column (1). Accordingly, health significantly affects happiness. Health only explains 35% of being happiness ( $R^2 = 0.35$ ). In the second column, the variable which shows the satisfaction of the public health services is added to the model. However, although the sign is positive, it is not statistically significant. In the third column, a variable indicating satisfaction rate with municipal cleaning services is added. People living in clean cities live in happier cities at the same time. In columns 4 and 5, it was tested whether safety affects human well-being. Two types of security variables have been used; the rate of feeling self-confident when walking alone at night and the satisfaction rate of the public safety services. As expected from the econometric results, we can see that the cities where people feel safe are happier. The social life variable in the 6th column is not statistically significant. In the 7th column, the murder rate per million people in cities is included in the model. The sign of the murder rate variable is negative and significant. In cities with high murder rates, the rate of feeling happy is falling. In the 8th column, a variable related to the distribution of income, which is, "percentage of households declaring to fail on meeting basic needs". However, happiness is not affected.

#### 4. Conclusion

In this study, we reveal the determinants of happiness in Turkey using indicator values of well-being index for provinces in 2015 published by Turkish Statistical Institute. By the help of cross-sectional econometric model, the public health service is one of the main

determinants of well-being in provinces. The more satisfaction rate with public health services, the more level of happiness in cities. Additionally, satisfaction rate with health status of people is also the main driver of happiness. While municipal cleaning services affect the general well-being positively in the provinces, murder rate decreases the happiness of the people living there. Further research particularly employed micro-level data of individuals is relevant for more detailed insights on human well-being.

**Keywords:** Happiness, Public Services, Health, Safety, Turkey

**Jel Codes:** H41, H51, I31

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## Location of Taxes and Situation of Customs Duties in Law and Economics Perspective

**Nevzat Saygılıoğlu<sup>1</sup>**

### **Abstract**

It is clear that, at such a point that there are transitions and conflicts between the dynamic and positive aspect of the economy and the static and normative aspects of the law, tax application have to be based on law. In other words, there are examples of overlapping or conflicting practices in the economy with the principle of legality that takes its place in the constitutions. It is aimed to discuss the issue in terms of tariffs and to show its relation with the normal taxation. This study is planned to demonstrate the unconcernedness that is because the customs officers do not have the knowledge of general tax law and the tax lawyers are indifferent to customs duties.

In this study, firstly, the relation between the economy and law is introduced and then economic law and the concepts of economic law are explained. Then the meanings assigned to tariffs in the theoretical framework are discussed and by putting forth the constitutional and legal framework of internal and external tariffs, the differences and similarities between the normal taxes and tariffs are examined. Thus, in this article, both in discipline and practice, it is aimed to raise awareness and inform about tariffs which the tax lawyers and practitioners are not concerned with.

## **1. Introduction**

The connection has not been made between tax law and customs law yet, even this connection is an economic phenomenon and it concerns the business world closely. In this study, first we will explain the theoretical foundations of the relationship between law and economics and under this topic the concepts of “economic law” and “law and economics” will be analyzed. The framework of tax law and customs law will be considered regarding economic dimension of the subject and the principle of the legality of taxation. In the following part, we handle the differences and similarities between normal taxes and customs duties. The final section wraps up with general assessments and concluding remarks.

## **2. A Conceptual Look at the Relationship Between Law and Economics**

### **2.1. The Background of the Law and Economics Relationship**

Today, the relationship between law and economics cannot be disregarded because the major part of the legal regulations contains provisions concerning economy. It is well known that an economic activity is not efficient without relying on legal foundations so that legal rules has become the function of economic order. Although the movement of “Law and Economics” (or Economic Analysis of Law or Economic of Law) differs from the “Economic Law”, some scholars still use them alternatively.

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## 2.2 Law and Economics (Economic Analysis of Law - Economics of Law)

The roots of Law and Economics doctrine are based upon Bentham's utilitarianism, methodological individualism, the movement of legal realism in the United States and "economic imperialism" or in other words "economics of everything". According to the neoclassical economics ideology of "economics of everything", economics is the best explanatory tool for all fields in the social sciences. Thus, primarily the law and other fields of social sciences are embedded into the economics. In other terms, "Law and Economics" is beyond the simple relationship between two disciplines.

The central concept of "Law and Economics" is "economic efficiency". In its evolutionary process, institutional economics has also influenced the movement in addition to neoclassical economics. Therefore, macroeconomics and institutions have become important at least as much as microeconomics. Law and Economics movement started with the economic analysis of antitrust law and regulatory issues. From the beginning of the 1970s economic analysis began to cover other areas of law including civil liability and criminal law. Today, (neoclassical and institutional) economic analysis is the primary method for understanding the positive and normative foundations of law.

Law and Economics;

- analyzes the effects of existing legal norms on the economy,
- proposes norms with socially desired consequences for the society and compare the effects of existing norms with their socially desired effects,
- analyzes which legal norms are likely to evolve in a society, given its institutional structure,
- seeks to explain the behavior of legislators, prosecutors, judges, and bureaucrats,
- analyzes how people act under various legal constraints,
- improves the quality of the legal system,
- analyzes the function of law for economic development.

## 2.3. Economic Law

Economic Law differs from the Economic Analysis of Law. In the Economic Law approach, law is not embedded into the economics. Two disciplines preserve their independent characters. Economic Law also concerns with economic activity by using legal rules, but it is not a paradigm-based approach like Law and Economics.

## 3. Tax Legitimacy Principle in Law and Economics

It is obvious that economy and law are intertwined disciplines. Therefore constitutional law, economic approach to tax law, the principal of economic penalty (for economic offenses) in fiscal law, arbitration rules for the international movement of capital and goods and the tax legitimacy principles of the constitutions are the concrete samples for this mutual transition.

### 3.1. Constitutional and Legal Framework of Taxes

There are many different approaches in order to define tax as a concept. For example, according to the classical definition in the theory of public finance, the main aim in taxation is to supply the public expenditures and definition defines the boundaries of boundaries of tax obligations. However, economy, management and law disciplines handle taxes in a different way.

In law perspective, tax is the application of static and discrete rules to the concrete and dynamic economic conditions. This is the tax legitimacy principle. Therefore, there are some related constitutional sentences such as Article 73 regulates the duty to pay taxes.

### **3.2. Local and Global Rules of Custom Duties**

In real, custom duties apart from the other types of taxes as their qualifications and operations are different. They collected from export and import operations as an international obligation and primarily international rules then local and national rules are viable. On the other hand, there is another private obligation which is about “supervision of markets and regulation of foreign trade” (Article 167). Legal framework of taxation is regulated under the Act No. 2976, Act No. 3577 and Article 167 of Turkish Constitution.

## **4. Position of Taxes and Cutom Duties in Turkish Law**

### **4.1. Differences between Taxes and Custom Duties.**

#### **4.1.1. Main Framework**

Custom duties differ from internal taxes. For example, distinction of direct and indirect taxes, reflection of tax, spesific or ad valorem tax base, differencies objective and subjective taxes, possibilities of protection informal economy, regular repetition of these type of duties casuses differences.

#### **4.1.2. Legal Framework**

Legal framework custom duties is also differs from other types of taxes. There are two aspects of this difference. First of all, while other type of taxes saperated as “tengable” and “formal” in tax law, these properties assumed to be together for custom duties.

### **4.2. Similarities Between Taxes and Custom Duties**

#### **4.2.1. Main Framework**

The most important similarities between custom duties and other types of taxes is; these two types of taxes are the financial obligations with tax derivatives.

#### **4.2.2. Legal Framework**

In real, there is an increasing degree of similarities between custom duties and other type of taxes. Frequently used concepts in Turkish tax law such as recognition, reconciliation,

installement and transfer quotation are also adopted to the customs law. In other words, it has seen that some tax law practices are also rebound to customs practices.

One another, some concepts and foundations in customs law are adopted by tax law. For example, it is seen that binding tariff information reflects to customs law as a cash price agreement.

## 5. Conclusion

This study aims to draw attention in order to evaluate the public finance and law within a different approach. It is important for both academic and pragmatic parties who are interested in this field of area.

Strong relationship between economy and law explained through Law and Economics approach. We also add new dimension for taxes and custom duties with a new theoretical approach. Hereby, we want take attention to the evaluation of tax law and customs law through this doctrine.

In this framework, we examine the legal basis of customs duties and other types of taxes and their international, regional and national dimensions. In addition, their similarities and differences are exhibited. The interferences are evaluated in accordance with tax and customs law. Thus, we aim to eliminate the lack of knowledge on customs and uninterested approaches of tax law researchers and pragmatists.

**Keywords:** Law of Economics, Economic Law, Tax Regulations, Disaggregation of Tariffs, Convergence of Tariffs

**JEL Codes:** H.25, K.34

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## **Diverted Profit Tax and Evaluation of Applicability in Turkey**

Şerif Emre Gökçay<sup>1</sup> Altan Rençber<sup>2</sup>

## 1. Introduction

To increase the state's income, first the government increases tax rates. In fact, this is a very useful way to increase the income to the optimum point and is also easy to apply. Increase in Motor Vehicle Taxes and Corporate Tax in recent days are typical examples of this situation.

These easy and beneficial methods can be criticized for tax justice. This practice further increases the tax burden on those who bear the tax liability, but does not touch those who have not entered the system. This leads to a significant injustice between those who pay taxes and those who do not.

What needs to be done is to tax these persons who has income in Turkey. This is not as easy as increasing the tax rates. First of all, it is necessary to identify the tax avoidance methods and to close the methods in front of them.

In our article, we will examine the "Diverted Profit Tax<sup>3</sup>", which has entered into force in the UK. Then if a similar tax can have any benefit on Turkish Tax System.

## 2. Diverted Profit Tax

On 2014, the UK Chancellor of the Exchequer announced that 25 per cent tax will be levied on income generated by economic activities carried out by multinational corporations in the UK and artificially shifted abroad. It is thought that this totally new "DPT", will generate income of 1.3 billion pounds within 5 years (Picciotto, 2015:239). It is also seen as a complement to the BEPS process.

The tax-related draft was published on December 10, 2014 and entered into force on 4 February 2015 with the annulment of Article 77 of the Financial Code of 2015 and will be applied after 1 April 2015. This tax will try to prevent the use of tax avoidance techniques that multinational companies use to direct their UK profits to low taxation areas (PwC,2016).

## 3. Conditions for Application of DPT

According to this provision it can be said that there will be 4 different taxpayers.

- Companies that are not British Companies but sell goods or services in England;
- Companies that are not British Companies but are in operation in the UK and providing services;
- Companies that are not British companies but have employees who are operating in the UK;

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<sup>3</sup> DPT

- British companies with offshore activities;

The Act regulates the application of DPT under two conditions. The first is when a foreign company supplies goods or services to U.K. customers and activities take place in the U.K. in connection with such supply but in a way that it is “reasonable to assume” is designed to ensure that it has no permanent establishment in the U.K (PwC,2016).

The second condition applies in connection with the supply of goods or services to the U.K.(Self,2015:333).

Even if both conditions are met, this tax will not apply to small and medium-sized businesses which have less than £ 10 million sales in the UK (Self,2015:333).

There are two “tests” to be applied in determining whether to avoid establishing a permanent workplace. The first test is looking at the purpose of avoiding permanent workplace setting. According to this; if there are regulations which have the main purpose of avoid from the UK Corporate Taxation, then the conditions of the test will be met. This is one of the general avoidance tests in the UK and is applied if the main purpose or one of the main purpose is to avoid (Self,2015:333).

In order to meet the requirements in the second test, the criteria "Effective Tax Mismatch Outcome" and "Insufficient Economic Substance" must be met.

To apply the "Effective Tax Mismatch Outcome" criteria, the UK-based Corporation Tax-like tax applied in a foreign country must be low at 80 percent or more than UK Corporation Tax. It should be noted that in the UK, Corporation Tax is 19 per cent (United Kingdom Government,2017).

To apply the "Insufficient Economic Substance" criterion it must be reasonable to assume that the tax benefit of the transaction is more than its economic benefits and that the transaction is only for tax purposes.

An example is shown where this tax is applied is in cases where there is a permanent establishment. In this case, most of the contracts of a company that carries out the vast majority of its activities in the UK are concluded in Ireland. Moreover, the profits earned in Ireland are subject to erosion by paying a copyright to a related tax haven entity and these processes has also no economic substance. Here, the HMRC<sup>3</sup> does not consider the royalties paid, but can actually determine how much it has to be paid.

#### **4. Calculation of DPT**

Once the conditions of DPT have been met, it is necessary to calculate how much profit is avoided so that the tax can be calculated.

According to this; the basic rule the avoided profits are equal to the profits that are reasonably considered to be earned from the main establishment. In these cases, HMRC assumes that it is an establishment in the UK and calculates profit according to OECD Transfer Pricing principles (Self,2015:333).

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<sup>3</sup> Her Majesty's Revenue and Customs

Where the "Effective Tax Mismatch Outcome" criteria exist, the HMRC has the authority to re-characterize the transaction. The situation is similar if there are transactions that have insufficient economic substance.

It should be noted that the rate of the DPT is 25 percent. This rate is above the rate of the UK Institutions Tax. For this reason, it has a deterrent effect (PwC,2016). It is thought that companies may go into readjustment of tax debt instead of long-standing disputes and paying a high rate (Self, 2015:335).

## 5. Fine Prints of the Procedure of DPT

First of all, it is not obligatory to give a tax return related to the DPT. However, HMRC should be notified when it is reasonable to assume that DPT will be accrued. It is envisaged that the obligation to give this notice is very wide and the HMRC will be informed in many cases where the taxable event will not be take place (Self,2015:335).

The HMRC sends a preliminary notice when it determines that it is a liability for DPT. This preliminary statement sets out the grounds that HMRC will levy DPT on the basis of certain assumptions. In particular, the HMRC may not allow 30% of the related costs (Self,2015:335).

The company may correct certain issues in the preliminary notice, but must then make a payment before the detailed discussion with HMRC begins. If an agreement cannot be reached during the twelve-month period, the company may apply to the court.

## 6. Conclusion

DPT is a set of rules that prevent the avoidance of Corporate Income Tax. There is no such arrangement in Turkish Tax System; the provision which can prevent tax subjects due to DPT is Article 3 of the Tax Procedural Law<sup>4</sup>, which is accepted as a precautionary general measure to prevent tax avoidance<sup>5</sup>.

The main problem is that the provision does not contain any criteria. There is no concrete determination as to what is the "true nature" criterion in the sentence and how to determine the actual economic nature in the subjective cases. Apart from the provision, the tax administration has not made any arrangements as to how the application should be done. The law's preamble also only indicates the purpose of the provision. This makes the relevant principle very problematic in terms of the legality of crime and punishment. The regulations related to the DPT are less problematic in terms of legality principle and more applicable with the included criteria because it clarifies how the taxation will be done in which case.

Another issue is the application difficulty of the TPL-3/B. The absence of a criterion in TPL-3/B is often accompanied by the ability of tax inspector to detect tax avoidance. Regulations such as the DPT are guiding tax inspectors in the face of concrete events. Therefore, they are more effective than general avoidance rules such as TPL-3/B.

**Key Words:** Corporate Income Tax, Tax Avoidance, Diverted Profit Tax

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<sup>4</sup> TPL

<sup>5</sup> "The true nature of the taxable event and related transaction is essential in taxation."

**JEL Codes:** H25, H26, K34

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# Investigation on Turkish Motor Vehicle Taxes for Tax Justice

Hülya Kabakçı Karadeniz<sup>1</sup>

## 1. Introduction

The motor vehicle tax that was introduced in 1967 had the wealth tax feature. There were 22 billion motor-vehicle tax payers since 2018. There had been many changes in the factors that determine motor vehicle tax up to the present. In this paper, the determination of value assessments of automobiles including the latest change will be discussed. And the problematic fields in the application of Motor Vehicle Tax will be analysed and then some solutions suggestion will be provided. The aim of the paper is to analyse the link between motor vehicle tax and the wealth value of vehicles and evaluate them in terms of tax justice and bring about some other issues that destroy tax justice.

The context of the paper is restricted by the first tariff of the motor vehicle tax of automobiles and land vehicles. Motorcycles, buses, minibuses, and other land vehicles and other air buses are not included into the analysis. As a methodology, the correlation analysis was used to determine the relationship between the value of vehicles and taxes paid by owner of these vehicles. Other issues affecting the value of vehicles were evaluated in terms of tax justice.

## 2. Changes that Affect Tax Rate in Motor Vehicles Tax in Turkey

When the Motor Vehicles Tax Law was first introduced, it was the wealth tax that taxes the commercial vehicles less. Along the line with the changes in related law in 1980, 1984, 1988, and 1992, some arrangements were made about the rates of Motor Vehicle Tax, and more authority was given to government and the ministry council. By targeting to reduce environmental pollution in 1993, Ministry Council was authorized to reduce the tax rates of vehicles using catalytic convertor. With the changes in 2004, net weight is abandoned and Motor Vehicle Tax tariffs are determined according to engine cylinder volume. By taking into consideration the cylinder volumes, an additional environmental tax feature was contributed into the Motor Vehicle Tax.

With the addition of new things into the article 23 of the law of 7061, and the law that was put into practice in 05.12.2017 states that The first registered and approved value of automobiles and the land vehicles defined in the first raw was taken in determining tax rate of these vehicles in later years. In the case of situations where tax rates of these vehicles is higher than % 10 Of insured values of insurance that was announced in January every year by Turkish Reassurance and retirement companies unions, the ministry council was authorized to set the tax rates on the same aged vehicles in the previous raw, and lower this

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rate up to %4 and to increase it according to legal rates (Motor Vehicles Tax Law, Law article 5).

### **3. The Analysis of Turkish Motor Vehicle Tax from the Perspective of Tax Justice**

In any tax system, justice is inevitable part of the design of tax system as it has been a social value (Yung,2016;183). To tax people relative to their financial power is an constitutional principle in welfare state view (Ateş,2006:92). 1982 In the second article of the law73 under the headings of tax duties it is stated that the fair and balanced distribution of tax burden is the social aim of the policy. Within the framework fair taxing policy, It is compulsory to tax everyone depending on their purchasing power without imposing them to any kind of discrimination (Pehlivan,2010:144).Financial power is the income above minimum substance requirements (Taş,2012:398) meaning it is the ability and power to pay taxes. And it is traceable by some facts like income, expenditure, getting wealthier and asset (Şirin,2012:289).

Wealth tax is a direct tax type. Since they can be collected relative to financial power of contributors, Direct taxes are fairer than indirect taxes (Edizdoğan etc.,2013:272). The fact that the emergence of tax income mostly consist of indirect taxes is an undesired and unwanted situation from the point of financial power and tax justice (Başaran & Yavaşlar 2012:416). It seems that the progressive taxes and taxes that is collected depending on the purchasing power appears to be fairest in our era. (Öztürk,2013:143). Progressive tax performed two functions. It gives contribution to the justice in taxing policy and it serves two different objectives, justice and economic stability) by positioning itself as automatic stabilizator (Yüksel:33). We can say that Motor Vehicle Tax vehicles are of a progressive tax type since they are taxed according to cylinder volume, carriage capacity, the number of seats, take of weight and price range.

Even it is distributed fairly relative to the tax payers' financial power, since taxes collected out of wealth serves in favour of the interests of social objectives rather than financial ones, it has small share in total tax income. Also, the informal sector, unfairly acquired tax exceptions is contributing less and less and reduces this share to a lesser degree (Öztürk,2013:143).

Motor vehicle tax is one of the specific based tax that is taken on unit basis in our tax system.(Kabakçı,Karadeniz,2011:91).Tariffs are designed as having two parts. One of them is the age of the vehicle. As the vehicles are aged, the tax decreases. And the other thing changes according to the rates for vehicles (Öncel etc.,2008:394). As the cylinder volume of vehicles are increasing, taxes of them increases, and the seat place for buses and the weight for lorries and trucks were taken as basis. According to latest change, the tax rate imposed on vehicles is exposed to higher taxes when the economic value of vehicles transcends the limits in the list. With this change already specific Motor Vehicle Tax turns to an ad valorem based tax.

A reason for injustice between the value of the vehicle and paid amount of tax is searched below in the application of Motor Vehicle Tax that is also one of the wealth taxes.

### 3.1. Not to Take into Account the Value of Motor Vehicle in Taxing Wealth

In the first article of Motor Vehicles Tax Law it is stated that as the cylinder volume of automobiles land vehicles increases, their taxes increases, and when these vehicles are aged their taxes decreases. This kind of situation, caused the conclusion that although the same cylinder volume of different brands have different values they all taxed by the same amount. It should be emphasized here that, this latest change in Motor Vehicles Tax Law (with the introduction of the order in 0.5.12.2017.) In addition to indicators situated in the first tariffs for motor vehicles, the value row is added. It appears that by taking new arrangements and vehicle values make the situation fairer as compared to the past. In order to detect the level of relationship between paid taxes and vehicle value, the correlation between taxes paid by vehicles and paid taxes in 2017 and 2018 is estimated for different models of best seller vehicles. While the correlation coefficient between insurance and paid taxes is found 0.66 (It is medium scale positive direction.) in 2017, after 2018 this level increased to 0.70 (strong and positive direction) to parallel to this, the unrepresented of the strong relationship that converges<sup>1</sup> between paid taxes and vehicle values shows that the vehicle values are not taken into consideration seriously in the taxing system.

**Table 1. The Relationship between Motor Vehicle Taxes and Vehicle Motor Vehicles Value of Vehicles Paid for 2017 and 2018**

		Correlations			
		KASKOD2018	MTV2018	MTV2017	KASKOD2017
Spearman's rho	Correlation Coefficient	1,000	,709**	,656**	,997**
	KASKOD2018				
	Sig. (2-tailed)	.	,000	,000	,000
	N	188	188	188	188
	Correlation Coefficient	,709**	1,000	,977**	,715**
	MTV2018				
	Sig. (2-tailed)	,000	.	,000	,000
	N	188	188	188	188
	Correlation Coefficient	,656**	,977**	1,000	,661**
	MTV2017				
	Sig. (2-tailed)	,000	,000	.	,000
	N	188	188	188	188
KASKOD2017	Correlation Coefficient	,997**	,715**	,661**	1,000
	Sig. (2-tailed)	,000	,000	,000	.
	N	188	188	188	188

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Source:** the insurance values of vehicle is acquired from [www.gib.gov.tr](http://www.gib.gov.tr) and taxes is our calculations



In addition to this, when insurance values are taken together with Motor Vehicle Tax rates it will be fairer for vehicles to be taxed.

### **3.2. The Overtaxation of Damaged Vehicles as Compare to Their True Values**

According to insurance information and monitoring data, 814,673 Accidents happened in 2017 year and 8,181,698 accidents with having material costs happened in the last couple. When vehicles are damaged their economic value drops, and so does drop in wealth value of car owners. This situation creates the situation that Motor Vehicle Tax could not properly recognize the wealth value and leading to injustice among tax payers.

### **3.3. Not Taking into Consideration the Environment Effect in Taxing Vehicles**

Although Motor Vehicle Tax is thought as wealth tax, as the motor cylinder volumes increases, tax increases and this contributes to the environment tax feature But looking at the Motor Vehicle Tax from this point of view some injustices can be seen. The increase in Motor Vehicle Tax followed by the increase in the cylinder volume of vehicles is a measure to prevent pollution. Although different types of different oil have different effects on environmental pollutions, there hasn't been an initiated new arrangement so far. Moreover, as the vehicles are aged they give more harm to the environment but their Motor Vehicle Tax rates decreases.

### **3.4. Inconsistency between Vehicles 'Ages and Taxes Amount**

In The present arrangement, vehicle taxes is categorized as 1-3, 4-6,7-11,12-15,over 16.Although newly purchased not second-hand vehicle is different than 3 year old car they are subject to the same amount of taxes. When the lists are prepared yearly, the tax will be fairer.

### **3.5. Low Tax Collection Rate**

Several problems emerge between tax payer who pay the taxes and the tax payer who don't. Out of general budget income, Motor Vehicle Tax can only obtain 10.824.648 TL out of 15978011 TL, The proportion of these amounts are %67. Unless this Motor Vehicle Tax is not covered, and the vehicles who did not pay were excluded from the traffic in 1998 and this ratio was %92 meaning taxpayers are more likely to pay MTV. (Kabakçı Karadeniz, 2011:141)

There are several reasons that explain why this ratio has been decreasing. Economic crises, increase in unemployment, and other negative outcomes But these explanations not only are valid for Motor Vehicle Tax but they are also valid for other taxes of low security measures. The hopes for mercy from the tax collectors of tax payers' who are obliged to pay may lead to low level of tax income.

## **4. Conclusion**

Motor Vehicle Tax which constituted 1.93% of total tax revenue in 2017 has the largest share among wealth taxes. Motor Vehicle Tax firstly started to be implemented in 1957 and there

have been several changes in law, in the articles of law and assessments methods. Up to the present the problem experienced in evaluating Motor Vehicle Tax as a wealth effect might destroy the tax justice. Although With the latest arrangements in Motor Vehicles Tax Law in 2017, it is possible that taxing stages is compatible with values of motor vehicles, tax amounts does not fit into the insurance values. Although there is a drop in in the wealth value of damaged vehicles, there will be no discount on tax amounts.

While the same taxing rates are applied into the different vehicles that use different oil, Aged vehicles are taxed less although they pollute more. The low level of Motor Vehicle Tax related tax income necessitates the increase in security measures. And tax discipline strictly be maintained and sustained. Tax forgiveness destroys tax discipline. And three years age differences in tax rates constitutes large time periods. But in the days of rapid technological change, vehicle types follow this and an economic value of vehicles differentiates.

**Key Words:** Wealth Tax, Motor Vehicle Tax, Tax Justice.

**JEL Codes:** H21, H26, K11

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# The Influence of Motor Vehicle Tax upon the Automobile Demand

Osman Cenk Kanca<sup>1</sup>

## 1. Introduction

Motor Vehicle Tax (MVT) which is one of the financial intermediaries is a type of wealth tax and at the same time it is in the position of a responsibility arising from owning a car. In the national economies where the number of motor vehicles is too high, this topic is pretty significant and the aforementioned tax becomes one of the political instruments appearing as a current issue. In this respect, regulations on the MVT revenues cause a lot of influences upon state and private sectors and it has also become important to analyse MVT, which is one of the revenue items in the budget, in terms of socio-economic-demographic factors.

Our existing taxation system tariffs the vehicle taking into consideration certain characteristics such as its age, engine capacity, number of seats and weight and the factors such as changing economic conditions, tax regulations, the price of the good, developing technological conditions and population growth reverberate on the change of the number of motor vehicles. The number of automobiles and MVT revenue in Turkey has been inclined to increase gradually after 1980. This tendency to increase has gained momentum even after 2000s. In this increase, regulations such as rise in the number/value of the vehicles, conveniences in the loan usages, car scrappage incentives, relative decreases in the interest rates, discounts in the special consumption taxes, gradual developments in cities, the fact that automobile has become one of the constant part of our lives and also the continuous population growth related to economic growth-momentum and income per capita have been the determinant factors (Ulusoy and Akdemir, 2013: 103).

In this study, which analyses the influence of MVT upon the automobile demand in Turkey, it has been aimed to form a model in which the determiners of automobile demand have been reflected. In this sense, first of all, MVT in Turkey has been briefly touched upon, and a literature review has been included. Then, the relation between automobile demand (number), MVT, average automobile sale price, population and income per capita variables have been tested by making use of the annual time-series data-techniques of the period between 1980 and 2016.

## 2. Literature

Despite they are few, different studies have been carried out in literature related to MVT and in the economies of the developed countries, the topic has been taken into consideration from an environmental perspective, however, in the economies of the

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developing countries, its taxational influence has been analyzed from different points of view. Chia and Phang (2001) have studied that motor vehicle tax in Singapore has been used as an instrument of environmental management and they have concluded that this tax should be collected twice a year. Kneller et al. (1999), in his study that he used some techniques of time-series, analyzed the period of 1970-1995 and pointed out that wealth taxes have adverse effects on the economic growth specific to 22 OECD countries.

About Turkish economy, Korkmaz (1982) has analyzed the relation between the taxes collected on wealth (MVT) and GNP and income per capita of the period 1925-1975 by making use of the regression analysis (Ordinary Least Squares-OLS). According to the empirical results, it has been concluded that there is not a strong relation between the taxes collected upon wealth in Turkey and GNP.

### **3. Data Set, Econometric Method and Findings**

In the study, the data have been procured from Turkish Statistical Institute and the publications of the Ministry of Finance. Analyses have been shown out of the approached variables such as automobile number, (AN), motor vehicle tax (MVT), average sale price of automobile (AP), per capita national income (PCNI) and country population (N). Firstly, all the characteristics of the individual time-series in the analysis have been put forward with the help of Augmented Dickey-Fuller (ADF) unit root test. The aim of that is to prevent the probable fake regression problem in the related variables (Yamak et al., 2016).

According to the results of ADF unit root test; all the series are stable in the first periodic differences. For that reason, short and long-term relations have been analyzed with 'Johansen-Juselius co-integration test' and 'error correction model'. It has been first predicted whether there is a long-term relation and it has been concluded that there is a long-term relation between the variables. In the light of these results 'error correction model' has been forecasted. According to the prediction results of the model, it has been ascertained that the aforementioned relation has appeared in the short-term period as well. In the 'OLS' prediction results, empirical proofs have been obtained related to the fact that MVT and average sale prices have reducing factors on automobile demand but income per capita has increasing influence upon the aforementioned demand.

### **4. Conclusion**

In the study, the relation between automobile number (demand), motor vehicle tax, average automobile sale price, income per capita and population for the period of 1980-2016 has been analysed specific to the Turkish economy. Whether the series are stable has been analysed with the help of ADF test before the co-integration test in the study. According to the stability test the series have been found stable in the level of I (1). After the stability analysis, co-integration test approach developed by Johansen-Juselius (1990) has been made use of for the determination of co-integration relation and it has been come across that there is a co-integration relation between the series. According to the prediction results of error correction, it has been found out that there is a short-term interaction between the aforementioned variables. As a result of the OLS analysis, findings have been obtained with regard to the fact that MVT and average automobile sale price in Turkey has decreasing

effect upon automobile demand, however, per capita national income has increasing effect upon the aforementioned demand.

Considered from a general perspective, the empirical results have met the financial and economic expectations. MVT in our country as a political instrument has been generally considered through an economic perspective and its financial influences have rather been paid attention to. Socio-demographic-economic-financial conditions of Turkey have determinant role in this approach. In this respect, some adaptations may be applied in this tax in the way that it will not vibrate the balances in the private economy (automobile market etc.). Still it has been considered that not only economic and financial purposes but also environmental factors, as in the advanced world economies, should be taken into consideration for the regulations related to MVT for the benefit of Turkish economy. On the other hand, when the literature has been reviewed, the few number of MVT and analytical (econometric) studies attracts attention. In this respect, it has been contemplated that the study will contribute to the literature of fiscal economics.

**Key Words:** Motor Vehicle Tax, Automobile Demand, Econometric Demand Analysis

**JEL Code:** H23, C32, R22

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## Comparison of Turkey's Fiscal Decentralization and Fiscal Autonomy Structure with OECD Countries\*

Önder Çalcalı<sup>1</sup>

### Abstract

It is possible for the fiscal decentralization based on the premise of "fiscal federalism" to have two main forms. The first one is "income-oriented fiscal decentralization", in which the administration of a number of taxes and similar public incomes are transferred to local governments, which brings more "fiscal autonomy". The second is "expenditure-oriented fiscal decentralization", which involves transfers / transfers from centralized taxes and other public revenue pools to local governments and which leave its spending authority to local governments. Like in many other countries, transfers are made in the form of income transfers to local governments from central government in Turkey. In Turkey in recent years, the share of these transfers within the total revenues of local governments has increased and is increasing steadily. In this context, local governments have become dependent on central government for income. In addition, the ratio of the total expenditures of the local government units in Turkey to the total expenditures of the public sector and the GDP has increased steadily. In other words, the level of fiscal decentralization in Turkey has recently increased. However, this increase is the "spending direction" fiscal decentralization increase provided by central transfers. There has been no increase in self-made income items that will increase the fiscal autonomy of local governments. In this study, the analysis of the situation of fiscal decentralization and fiscal autonomy of Turkey has been done and compared with the OECD countries, Consequently it has been concluded that it is located in many different points.

### 1.Introduction

Fiscal decentralization refers to a process involving the generation of policies for local governments, while it share of public fiscal resources and their administration between central and local governments. At the end of this process, it is aimed to present the goods and services other than nation **all evel full** public goods to the local administrations which increase the fiscal strength.

In this study, fiscal decentralization and fiscal autonomy situation in Turkey were discussed in detail and compared with other OECD countries. In the study, firstly the concepts of fiscal

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\* This study is derived from a doctoral dissertation study, entitled "The Relationship between Fiscal Decentralization and Local Tax Revenue Performance: An Implementation on Municipalities in the Eastern Black Sea Region" accepted at Ankara University, Social Sciences Institute, Public Economics Department.

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decentralization and fiscal autonomy were tried to be explained. Secondly decentralization of Turkey's fiscal situation has been examined by the structure of the local government sub-heading of taxation powers and transfer system. Then, the findings were compared with the OECD countries in terms of expenditure and income. The study was concluded with the findings evaluated.

## 2. Concepts of Fiscal Decentralization and Fiscal Autonomy

Fiscal decentralization<sup>3</sup> can be defined as the institutional mechanism that transfers fiscal duties and responsibilities from central government to local governments (Tanzi, 1995: 18; Neyapti& Bulut, 2011: 7).

Owens and Panella (1991: 13) describe fiscal decentralization as allocating sufficient fiscal resources to local governments to meet their service responsibilities left to local governments in the sharing of duties and resources between administrations.

**Table 1: Elements and Characteristics of Fiscal Decentralization**

Elements	ExpectedFeatures
Representation	Selection of administrative units
Managers	Locally defined
Spending authority	Local control and authorization at the discretion of the amount spent
Budget	Local approval; soft budget constraint
Revenue	It comes in sufficient quantities and the local authority in significant amounts in obtaining these revenues; to determine taxes and the rates.
Inter governmental revenue sharing	Unconditional and formally based sharing
Grants	Distribution based on block aids, formulas and other objective criteria; equalization
Obligation authority	Broad obligation authority; soft budget constraint

Source: Bahl & Martinez- Vazquez, 2006: 21

As a general evaluation, it can be said that fiscal autonomy is broader than fiscal decentralization. Whereas autonomous local units in fiscal sense are capable of having broad powers such as central government in some cases (e.g. determining the tax base and rate of local taxation); it may suffice for central governments to transfer funds to local governments in order to provide fiscal decentralization. However, it can be said that the substitution of these two concepts will not be too harmful.

<sup>3</sup> The concepts of fiscal decentralisation and fiscal autonomy are those introduced within the framework of the theory of fiscal federalism and express the phase of implementation of the theory of fiscal federalism.



### **3. Turkey's Fiscal Decentralization Structure**

#### **3. 1. Taxation Authority of Local Governments in Turkey**

Recently, in accordance with the "Municipal Tax and Painting Law" numbered 423, which was accepted on February 26, 1924, the authority to collect a number of taxes and photographs was given to the municipalities (Çağan, 1982: 55). The purpose of this law is to strengthen the municipalities in terms of their own income.

In the 73rd Article of the 1982 Constitution (as in the 1961 Constitution), the "law fullness principle" was preserved by only repealing the tax and similar financial obligations that would be put in to law, amended and abolished.

#### **3. 2. Structure of Applied Transfer System in Turkey**

Many amendments were made in Law No. 6360 (M. 25) and Law No. 5779 governing the administration inter governmental fiscal transfer system in Turkey. With the amendment, the share of the general budget tax revenues collected within the borders of the metropolitan municipalities was increased from 5% to 6% for the metropolitan municipalities. Also, the share of the general budget tax revenues to be given to the metropolitan municipalities increased from 2.50% to 4.50%. The "area" criterion has been added to the population criterion used for the distribution of these shares.

### **4. Fiscal Decentralization and Fiscal Autonomy Degree in Turkey and Comparison with OECD Countries**

It is important to examine income and spending fiscal decentralization situation in Turkey.

#### **4.1. From Spending**

In Turkey local government units have been recently included in the institutions whose expenditure level shows the highest increase in real terms among the institutions within the scope of general administration.

#### **4.2. From Revenue**

In Turkey, there is no change levy and removal powers of local governments. This authorization is entirely centralized. In local governments, only the collection of some local taxes is left by the central government. The income deductions from these are regarded as self tax income.

#### **4.3. Local Taxation and Fiscal Autonomy in OECD Countries**

Considering the OECD in general, it is seen that the share of local tax revenues at local level is not very high, and this share has been steadily declining in recent years. The average of these shares is 17%, ranging from 1% (Greece) to 46% (Canada). Also, while the average of federal countries is 28%, it is 13% for unitary countries.

## 5. Result

Local governments in Turkey (especially municipalities), had a legally autonomous structure from the Republic's early years to the 1980s; however, they lost their authority after these rights had been completely terminated within the law.

Inter governmental transfer system in Turkey is regulated by Law No. 5779. Under this law, significant amounts of the central government's tax revenues under control are transferred to local governments. These revenue transfers are unconditional transfers and have become a major source of income for local governments over the years.

Revenue Considering the way fiscal decentralization or autonomy degrees, the ratio of total public revenues, revenues of local governments in Turkey, followed a stable trend of just over 5% between 2014 and 2010. In 2015, it fell to 4.95%. When the average of OECD countries is examined, it is 18,90% for 2015. According to these figures, the local fiscal revenue directional degree of autonomy in Turkey is not even half the level of the OECD. When fiscal decentralization and fiscal autonomy values of Turkey were compared with international values in this context, it can be said that Turkey's values are at lower levels.

**Key Words:** Fiscal Decentralization, Fiscal Autonomy

**JEL Code:** H71, H77

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# The Effect of Capital Control on Capital Investments and Foreign Exchange Rates: The Case of Malaysia

Mete Dibo<sup>1</sup>

## 1. Introduction

Savings are an important factor that serves as a locomotive for national economies to achieve growth and development. Countries with savings problems are increasingly opening up their borders to foreign capital in order to meet their savings deficits. Foreign capital investments are usually in the form of direct investments and portfolio investments. Portfolio investments that are short-term and often focused on achieving high profits by taking advantage of high interest rates may create economic and financial instabilities. Capital outflows due to the deterioration of economic indicators, political uncertainties or the crises experienced in the global economy can lead to instability by creating financing problems.

Suggestions for restricting capital movements are intended to reduce the severity of these effects. The restriction methods can be applied directly (quantitative restrictions) or indirectly (taxation).

One of the countries that used capital controls to overcome economic and financial problems is Malaysia. On September 1, 1998, following the Asian crisis in 1997, Prime Minister Mahathir Mohammad announced that they were launching capital controls. Malaysia abandoned this practice in July 2005 and re-liberated capital movements and exchange rate regimes (The Straits Times, 2015; Mitchell & Joseph, 2010: 460).

The aim of this study is to investigate whether the periodically implemented capital controls in Malaysia have created the expected effects on exchange rates, foreign direct investment and portfolio investments. For this purpose, using the World Bank data, the period during which capital control was applied and the periods during which this control was not applied were compared.

## 2. Effect of Capital Control on Exchange Rate

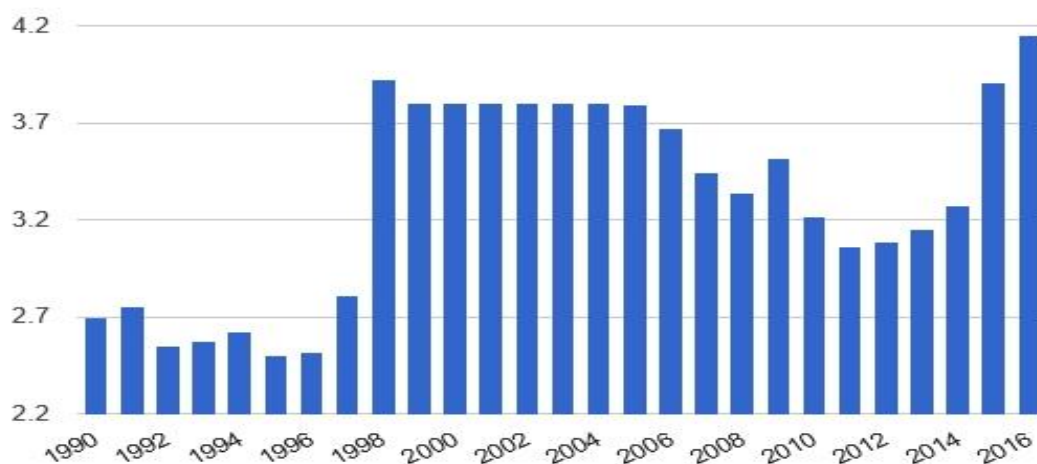
Since intense capital inflows are causing downward pressure on the real exchange rate, some economists have suggested the liberalization of capital outflows. However, empirical studies put forward that abolishing capital controls exacerbates net capital inflows. England (1979), New Zealand (1984) and Yugoslavia (1990) are the countries that have experienced this kind of process. Chile has worked to liberate capital outflows in the 1990s but it has not been able to prevent the net capital inflows remarkably (Labán & Larraín, 1997: 415).

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Dornbusch who is skeptical about the some precautions in Malaysia, admits that capital controls will reduce pressure on exchange and interest rates. But this implementations must be temporary and it should be impose in the midst of a crisis(Bang Vu, 2005: 2).

**Graph 1: Exchange Rates-1990-2016 – Malaysia**



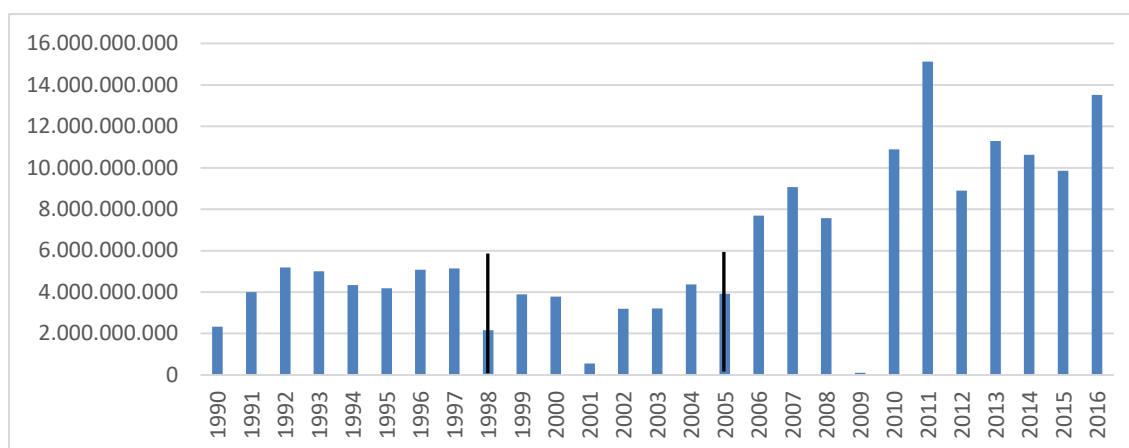
**Source:** International Monetary Found

The expectation is that the outflows will be reduced due to the capital controls and the downward movement of the exchange rate will be prevented. Graph 1 shows that the control of capital outflows in Malaysia led to an upward movement in exchange rates and that this pressure was generally downward but volatile course with the abolition of controls in 2005. Therefore, controls have prevented the downward movement of currencies.

### 3. Impact of Capital Flows on Direct Investments

When capital movements are controlled, it is expected that short-term investments will decrease and there will be a change in favor of long-term investments.

The Malaysian authorities were quite careful to target short-term speculative capital flows(Kaplan & Rodrik, 2001: 5). For instance, nonresidents were required to wait for one year to convert ringgit proceeds from the sale of Malaysian securities(Abdelal & Alfaro, 2003: 47).However, it seems possible in the long run that the controls serve to deter long-term investors(Kaplan & Rodrik, 2001: 5).

**Graph 2: Net Foreign Direct Investments 1990-2016 - Malaysia**

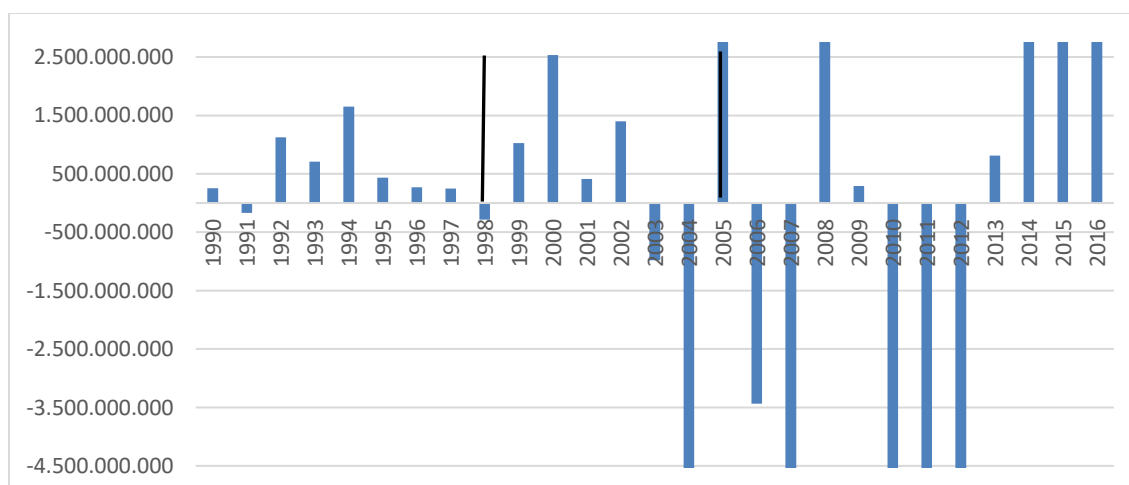
**Source:**Prepared by the author using World Bank data.

From the implementation of capital control to the rescission of it (1998-2005),it was seen that there was not an increase in the net direct foreign investments;on the contrary,there was a certain amount of decrease.While net direct foreign investment entrance was 5.1 billion dollars in 1997,it was 3.9 billion in 1999 and 2005.

#### 4. Impact of Capital Flows on Portfolio Investments

Bhagwati (1998) and Rodrik (2000) argue that capital market liberalization invites speculative attacks.This proposition is incompatible with the traditional belief that free capital flows help countries benefit from trade liberalization(Johnson & Mitton, 2003: 352).

The main purpose of the capital controls is to curb short-term (speculative) portfolio investments and to prevent the damages that these movements might have on the economic stability.

**Graph 3: Portfolio Investments 1990-2016 - Malaysia**

**Source:**Prepared by the author using World Bank data.

Graph 3 shows that there is an increase in the short-term capital inflows over the next four years following capital controls beginning in 1998 in Malaysia. However, it has been observed that the capital outflow amounted to 1 billion dollars in 2003 and 8.4 billion dollars in 2004. It is known that after 2005 when the controls were off, the capital outflow continued. In 2012 capital outflows amounted to approximately 20,7 million dollars. As a result, it is seen that the controls on the capital did not affect the floating nature of capital movements.

## 5. Conclusion

It is often discussed in the literature that whether direct and indirect control mechanisms proposed in order to prevent the economic instabilities created by sudden capital outflows cause significant consequences.

Tobin tax which was proposed to control the capital movements with the collapse of the Bretton Woods system in 1971 has been the most debated argument in this area. This tax which was planned to be applied on foreign exchange transactions aimed to regulation of the capital flows across borders. Tobin suggested a global tax that will restrict the capital's movement to the trans-oceanic financial markets (The Economist, 2013).

Although this tax has not been implemented in the global context, it is known that capital controls are applied in various forms in about 25 countries. Malaysia has also controlled capital outflows to get rid of the collapse created by the 1997 Asian crisis and has introduced an adjustable fixed exchange rate regime. The effects of this policy on capital investments and exchange rates constituted the scope of this work. The findings show that capital and foreign exchange controls do not lead to noticeable effects in achieving the desired objectives. It should be noted that this result is valid for the country examined in this study and the analysis of different country implementations by different methods will strengthen the evaluation of the subject.

**KeyWords:** Capital Flows, Capital Control, Taxation of the Capital, Tobin, Malaysia

**JEL Codes:** F38, F60, O16

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# Transformation on Local Service: Commercialization in Municipal Services

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## 1. Introduction

From the 1980s onwards, radical changes in technology and the economy are called globalization. Globalization has many dimensions, especially economic, cultural and political dimensions. Within these areas, the most important dimension is the economic dimension because it influences and directs other dimensions.

Due to the rapid economic developments that have been experienced since the 1980s, the effectiveness of local governments has increased considerably.

One of the tools necessary for the realization of globalization is localization. Along with globalization, local goods and services are offered as paid services and the prices of those goods and services are taken into consideration as the payment of those who benefit from these services. From this point of view, local governments are moving away from the principle of increasing social welfare at the local level. Local governments are now starting to see the local people they serve as customers, not citizens (Falay, 2010: 3).

The purpose of this study is to reveal the level of commercialization of municipal services in the local service and its causes and consequences. To this end, firstly, the political and economic developments that open the way for commercialization of municipal services at international level will be addressed. Later, developments that cause municipalities to move from a public interest-based approach to a market-based approach in local service delivery will be examined from a legal and economic point of view.

## 2. Commercialization of Service Delivery in Municipalities

In Turkey, municipalities have undertaken more missions than other types of local government, local government units are thus the most important. Both the Constitution and the Municipal Law no. 5393 have given wide financial and administrative freedom to the municipalities. It is important for the municipalities to be in an autonomous position as the closest service units to the public in order to provide local democracy.

On the other hand, municipalities need to have sufficient income to fulfill their responsibilities in the delivery of local services. As of now, the incomes of the municipalities

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are composed of their own income, the share of general budget tax revenues and other income.

### **2.1. Revenues of Municipalities**

According to Municipality Law No. 5393 and Municipality Income Law No. 2464, the incomes of the municipalities consist of municipal taxes, municipal fees and participation fees. The municipalities should have a strong financial resource and structure to enable them to fulfill the task of "meeting the local common needs of the residents" and the other duties assigned to them by the law no. 5393.

The incomes of the municipalities are:

- a) Municipal taxes, duties, fees and participation shares shown by law.
- b) Share from general budget tax revenues
- c) Payments to be made from general and special budget administrations.
- d) Revenues to be derived from the lease, sale and other evaluation of movables and immovables.
- e) The service fee to be charged according to the tariff to be determined by the city council.
- f) Interest and penalty incomes.
- g) Donations
- h) Income from all kinds of venture, participation and activities.
- i) Other incomes

As seen above, many revenues have been allocated to the municipalities to cover their expenses. In particular, subparagraphs (d), (e) and (h) allow municipalities to establish commercial relations.

According to Article 70 of Municipal Law No. 5393, municipalities may establish companies in the fields of duties and services assigned to them according to the methods specified in the related legislation. On the other hand, municipalities will be able to charge their services according to the tariffs to be determined by their councils.

### **2.2. Approaches to Commercialization of Municipal Services**

Governance, which is presented as a solution to the crisis of representative democracies and political parties, is one of the main mechanisms of global capital that is not bound by space and distance boundaries in the world where capitalism is globalized and neoliberalism becomes dominant (Çitçi, 2008: 26). This understanding has been transformed into new public administration in the presentation of public services at central and local level. One of the most important features of the New Public Management approach is to encourage competition in public administration and to dominate business type structures by using market-like structures (Karcı, 2008: 47).

### **2.2.1. New Public Management**

The New Public Management emerged as a product of the revival of liberalism after the economic crises of the 1970s. The liberal political parties that came to power in the 1980s needed to restructure their country's governance system to their own ideology. While the welfare-state concept has been abandoned in this framework, new management techniques have been developed that have not been applied before. These techniques have spread rapidly around the world, especially with the support of international organizations. In the 1990s, academics started to give the name of New Public Management to this management reform which is happening in the world. New Public Management is the most important determinant of the transformation that Turkey has experienced since 1980s.

### **2.2.2. Governance**

Governance refers to the fact that an institution is co-directed with administrators and the public. The concept of governance entering Turkish with the "Istanbul Habitat II Conference" in 1996 means managing together (Toksöz, 2008: 3). In this context, the administrations best suited to manage together in a geographical sense are the municipalities because they are the closest administrations to the public. Municipalities, because of their structure and size, are the types of local government that governance can be implemented at the highest level. On the other hand, in the provision of local democracy, administrative participation and governance seem to be increasingly interested in municipalities.

### **2.3. Limitations of Central Government on Local Governments**

Local governments in Turkey, to present date, are kept under heavy pressure from the central government and are subjected to tightly control. This absolute commitment to central government has been an obstacle to the institutionalization of local governments. When we evaluate all the reforms so far, we see that they do not have the desired and expected effect. The dominance of the center felt its effect from the first constitution to the last Constitution. In all constitutions, the local administrations were not avoided from the center-dependent arrangements. The permanent existence of a centralist structure has convicted local authorities to stay in the shadow of central government.

### **2.4. Municipal Finance Problem**

The ability of municipalities to provide services of sufficient size and quality is directly related to the high share of self-revenue within the municipality's total revenues. The high self-incomes make it easier for municipalities to have a distant and autonomous financial structure from the center. An autonomous financial structure leads the municipality to be able to better service planning, to be able to move more flexibly and therefore to provide better service (Çetinkaya ve Demirbaş, 2010: 3).

### 3. Commercial Solutions Produced by Municipalities

In Turkey, nearly all financial resources are controlled by the central government; for this reason there is a centralized management system. This system causes central government to excessively limit the area of action of local governments. The central government can also use the financial means as a means of influencing local governments. Due to the financial impact of the central government on local governments, local governments find solutions with their own management systems to minimize these effects.

The municipalities are producing solutions to generate funds due to the fact that the tax revenues they obtain and the transfers made from the general budget can not cover the municipal expenses. The solutions produced are beyond the main objective of the municipalities to provide services to the public and lead them to be considered as a commercial enterprise. Even if these solutions are a source of municipal expenditure, they are moving the municipalities away from the social state principle stated in the Constitution.

The revenues other than taxes include the following: income from the rental, sale and other evaluation of movable and immovable property, fees for service charge, interest and penalty income to be collected according to the schedule to be determined by the city council, income to be provided for all kinds of venture, participation and activities. The share of these revenues in municipal revenues is estimated to be around 25-26% in recent years (Çetinkaya, 2015: 179).

In this study, the market-based approaches and the level of commercialization of services provided by the municipalities in order to overcome financial difficulties will be tried to be analyzed by analyzing their finances structures.

### 4. Conclusion

It is inevitable for the municipalities to earn income in order to fulfill the duties given by Law No. 5393. It is not possible for the municipalities to cover their expenses with the income from the allocated taxes and the shares from the general budget tax revenues. In this context, the solutions produced by the municipalities are pushing the legitimacy that is given to them by the law.

Businesses established by municipalities in order to create resources should not go beyond their real purpose. These businesses, which are established by taking into consideration the conditions of the day and whose purpose is to provide cheaper, better quality and faster service to the local people, either work with a sense of profit out of their original purpose or face some of today's privatization practices.

Local governments should not go beyond the aim of increasing social welfare at local level. For this reason, both the public administration and the recent developments in public finance science suggest that the municipalities have more sources of income, but that they are not removed from the generally accepted principles. The municipalities should give up profit-making, should take the citizen to the center in the service delivery and should not regard the citizen as a customer.

**JEL Kodu:** H71, H72, H76, H77

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# Real Estate Owners' View of Estate Tax: An Example from Sakarya

Hakan Yavuz<sup>1</sup>

## 1. Introduction

The estate tax is a tax on the value of the property that is usually owned. Since the income of the real estate tax has been included in the provincial municipal budgets since 01.01.1986, it now carries a local taxation characteristic. The current real estate tax law is under two headings, namely building and land tax (Sarılı, 2013: 653).

When the values of immovable properties subject to real estate tax are determined below their real values, municipalities may suffer a significant amount of tax loss. The absence of an effective control and control mechanism can further increase this loss. Today, although the amount of real estate tax is determined under what should be due to many factors, it seems that there is a tax loss that reaches significant amounts (Organ & Çiftçi, 2015: 128). It can be said that the loss of revenues from the real estate tax is caused by unawareness by real estate taxpayers and shows the existence of an important effect on the way they perceive tax. The aim of this study is to determine the real estate proprietor's awareness of real estate tax and real estate tax by survey method in the province of Sakarya in the frame of this form of tax perception.

## 2. Explanations on Property Tax

The property tax is one of the oldest types of effective taxes in Turkey and has an objective character. This requires that all immovable in a similar situation be taxed at the same rate. Therefore, it is not possible to talk about a tariff structure that changes according to the taxpayer in the real estate tax. Based on the issue of property tax and /or on wealth tax categories, the building is limited within the borders of Turkey (building tax) and is land and land (land tax). Such kind of tax is for real persons or legal entities who are liable, owner of buildings and land, beneficial owner or owner of savings.

The tax base of the real estate tax is the tax value of the building and the land (Turhan, 1998: 183). Real estate tax, along with a local tax, has been adopted in this tax property principle. Therefore, the taxation enforcement has been adopted by the country where the immovable is located.

Nevertheless, it can be said that this carries gross elements. The fact that the tax of the real estate is not a pure tax brings with it arguments about justice (Edizdoğan & Çelikkaya, 210: 297).

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## 2.1. Problems in Determining Tax Values in Property Tax

In the implementation of property tax, it can be said that many problems have been experienced while determining tax values of buildings and land. Determining tax values below the market value causes local governments to suffer a significant tax loss. The effect of many factors on the occurrence of tax loss can either be mentioned. Among them (Organ and Çiftçi, 2015: 128, Karasu and Karakaş, 2012: 438);

- Realization of real estate tax valuation period,
- Lack of qualified personnel of the municipalities,
- Taxpayers' reluctance to pay tax,
- No auto-control mechanism for unpaid tax,
- Determining the building construction costs below the actual value,
- The revaluation rates remaining below the real market value increases the immovable,
- Updating the value of immovable subject to real estate tax every four years, etc.

## 2.2. Realization Related to Property Tax Revenue in Turkey

The share of real estate tax income in our country is very low in total tax revenue. The facts about the income of real estate tax, which is a wealth tax, are mentioned in table

**Table 1. Realizations about Property Tax Revenues**

Year	General Budget of the Tax Revenues (1)	Tax Revenues From Ownership (2)	1/2
2006	137.480.292	1.627.645	1,1
2007	152.835.111	1.723.573	1,1
2008	168.108.960	1.983.109	1,1
2009	172.440.423	2.113.620	1,2
2010	210.560.388	2.976.804	1,4
2011	253.809.179	3.850.009	1,5
2012	278.780.848	3.911.357	1,4
2013	326.169.164	4.231.567	1,2
2014	352.514.457	5.354.037	1,5
2015	407.818.455	6.276.415	1,5
2016	459.001.741	7.202.974	1,5

**Source:** Created from [www.muhasabat.gov.tr](http://www.muhasabat.gov.tr) address.

As it can be seen from Table 1, tax revenues from real estate in Turkey have been continuously increasing during the period 2006-2016. The share of real estate tax revenues in tax revenues varied between 1.1 and 1.5% in the same period. Therefore, it is seen that the share of real estate tax income, which is a wealth element, in total tax revenues is very low.

### 3. Literature review

In the Turkish literature, there is an important number of studies within the scope of tax compliance in the real estate tax (tax awareness, tax perception, taxonomic view, attitudes towards taxation and behaviours, etc.). From these studies, Sağbaş examined the local tax perceptions of 92 real estate and / or environmental cleaning taxpayers in 2003 within the framework of Public Choice Theory. In the study, it was determined that the majority of the respondents lowered that the amount of taxes they paid at the local level would be "unimportant" away from reality.

The loss of income of real estate tax of the municipalities in the work done by Karasu and Karakaş in 2012 was taken into consideration in Şanlıurfa. Within the scope of the study, seven of the seventy neighborhoods in the city were selected as sample and the real estate tax values of the apartments selected by sampling method from the apartments located on the main street in these neighborhoods and the market prices of these apartments were compared. According to the survey, although the commission has made significant increases in the annual rate, it has been found out that the tax base is low and that the city does not receive the desired amount from urban rent due to the rapid increase in urban rent. Korlu et al. investigated the local tax perceptions of taxpayers in Bursa in 2016. A survey of 680 people surveyed found that citizens had a moderate level of knowledge about local taxation, that tax exemptions were damaging to tax-paid cultural property, and that this culture had to be developed.

### 4. Methodology

#### 4.1. Purpose of the Research

The purpose of this research is to determine the real estate taxpayers in Sakarya and its provinces, and to look at the real estate tax in the form of perception of this tax. In the literature real estate tax consciousness, perception, tax adaptation in real estate tax, etc. or generally on local taxes.

#### 4.2. The Universe of Research and Sampling

The universe of the study of the real estate owners' interest in the real estate tax is the real estate owners in the Sakarya province borders. The sampling method is a random sample.

#### 4.3. Survey Data Collection Method

Survey method will be used as data collection tool in the survey. It is envisaged to conduct 500 surveys within this scope. The questionnaires will be held in March and April 2018. The survey has a total of 35 questions, of which 26 are directed to the fakers who determine the real estate owners' views on the real estate tax. it was preferred to use the 5-point Likerts scale in order to measure the self-tax assessment. On this scale, options were given to people as "absolutely disagree", "disagree", "undecided", "agree", and "completely agree".



#### 4.4. Research Hypotheses

The basic hypotheses of the research were determined as follows within the scope of the questionnaire.

*Hypothesis 1: The real estate tax is not implemented fairly.*

*Hypothesis 2: The real estate tax is not paid regularly.*

*Hypothesis 3: Real estate tax is well below market value.*

*Hypothesis 4: Real estate owners do not have enough information about real estate tax*

#### 5. Conclusion

Although determined to be below the required amount of property tax in Turkey is composed of significant tax loss. However, it can be said that real estate taxpayers' real estate tax consciousness is not fully adequate. Surveys conducted in this study will also be used to determine real estate proprietors' awareness of real estate tax and real estate tax. As the surveys conducted with real estate owners continue, the exact results of the survey will be made when the surveys are completed.

**Key Words:** Tax compliance, Tax awareness, Real estate tax.

**JEL Codes:** H21, H30, H31.

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# Thoughts about Tax Evasion in Turkey of Public Finance Scientists

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## 1. Introduction

People do not expect a personal allowance from the state for tax payments. Tax, however, are often seen as a burden as they cause individuals to narrow their available income, wealth and spending, and at the same time reduce the potential for savings by individuals. Therefore, even though the ratepayers are legally mandatory, they resort to various legal or illegal ways to not pay taxes (Bilgin, 2011: 167).

The purpose of the present study was to examine the awareness of Scientists of Finances on tax conscience and tax ethics, and to determine their opinions on tax losses and tax evasion and the reasons for these. To realize the abovementioned purpose, the great majority of Scientists of Finances (750 participants) were contacted via e-mail, and the questionnaires that were prepared in the context of the present study were sent. 223 Scientists of Finances who responded to our e-mails and who filled in the questionnaires were included in the study. No missing data were determined when the questionnaires were examined, and all of them were included in the study. The study will focus primarily on the factors that involved in the theory and the literature and affect the behavior of the ratepayers against the tax. Then evaluating survey results, it will disclose the general opinion of the people who public finance scientist related to tax avoidance and evasion in Turkey.

## 2. Factors Affecting Behavior Against the Tax of Ratepayers

The reason why taxpayers resort to the ways that lead to tax losses is to increase net gain after tax (Savaşan & Odabaş, 2005: 5). In all economies there is absolutely tax evasion whatever the amount. It is not possible to reset this. However, minimise is a major success for the economies (Erdem et al., 2017: 268).

There are many factors that determine the attitudes and behavior of taxpayers towards taxation. They are divided into two groups, economic and administrative factors and non-economic factors (Giray, 2016: 2).

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## 2.1. Economic and Administrative Factors

Ensuring compliance of taxpayers with taxation have economic and administrative factors such as payment power, tax rates, the structure of the tax system, the complexity of tax laws, the state of the economy, the frequency of inspections and the deterrence of punishment (Maciejovsky vd., 2012: 348).

The belief that tax revenues are not used efficiently as a result of misapplied economic and fiscal policy implementations increases the taxpayer resistance to taxation (Türgay, 2011: 307). If the taxes paid are used in productive areas and people can benefit more from public services, their resistance to the tax will be mitigated (Çataloluk, 2008: 219-227). It is important for tax compliance to believe that taxpayers' taxes paid return to them as goods and services.

Tax laws have an important place both in terms of tax obligations and tax administrations. Therefore, the tax legislation should be in a style that is easy to understand, open, and does not contain any interpretation. Taxpayers may lead to tax losses, knowingly or unknowingly, by directing arbitrary practices to non-simple legislation (Çataloluk, 2008: 224).

Tax administration relations with taxpayers are also one of important factors affecting attitudes and behaviors towards taxation. In countries where the tax administration produces tax-focused services and informs the taxpayer at the right time and correctly, the taxpayer's compliance with taxation is higher (Küçük, 2011: 2).

If tax penalties become deterrent, feasible and certain, they will be effective in the decisions of taxpayers who plan to act contrary to tax laws (Savaşan & Odabaş, 2005: 19).

The tax system and the management structure are one of the important factors affecting the tax attitude of the individuals. In this context, thinking that the tax system is unfair will cause individuals to take a negative attitude on tax consciousness. This will lead to tax loss (Taytak, 2010: 500). However, the perception of the tax system as heavy on labor incomes and relatively low on capital incomes increases injustice and encourages taxpayers towards tax evasion (Özyama & Gümüş, 2013: 91).

In our country, tax audit rates have changed between 2% and 3% in recent years. If necessary, more main headings can be used. It is seen that tax auditing rates should be increased more when taxpayers are thought to be involved in tax evasion by considering the risk of being caught and punished as a result of tax audits (Özyalama & Gümüş, 2013: 81). Economic crisis and high inflation cause injustice in the tax system. Tax injustice caused by high inflation causes increase of tax loss (Türgay, 2011: 306).

## 2.2. Non-Economic Factors

The behaviors of individuals in taxation are affected at the level of tax consciousness and morality like economic factors.

Tax morality is defined as an internal motivation for taxpayers to pay taxes. Internal motivation means voluntary paying or not paying taxes without external pressure or coercion (Aktan, 2012: 1-5). In other words, tax morality implies that taxpayers should fulfill their obligations voluntarily and it is one of the important factors affecting tax compliance (Izgi & Saruç, 2011: 133).

In society where tax consciousness is high, the citizens know how the tax they pay will return to them, so they know where the tax they pay. As a result, they fulfill their obligations with regard to the tax on them, as it is expected from them, and without any compulsion (Organ & Yegen, 2013: 243).

### 3. Research

#### 3.1. The Purpose and Scope of the Study

The questionnaire form used in the study consisted of five sections. In the first section, the demographical data of the scientists who participated in the study like age, gender, and academic titles were included. In the second and third sections, 11 propositions that questioned the tax conscious and tax ethics, whose relations with these variables would be tested, were included in the form of 5-Point Likert Style. 5 propositions were included in the scale in the form of; 1: *I definitely do not agree*; 5: *I definitely agree*. In the fourth section, 5 propositions were included in the form of 5-Point Likert Style about the opinions on tax losses and tax evasions in Turkey. In the last part, 11 propositions that were organized in the form of 5-Point Likert Style were included to determine the opinions of the Scientists of Finances on the reasons of tax losses and tax evasions in Turkey. In this scale, 1: *Non-influential or Least influential*; and 5: *The most influential*.

#### 3.2. The Hypotheses of the Study and the Analyses of the Data

Three hypotheses were formed in the scope of the study and were tested according to their statistical significance levels. The hypotheses were based on the purpose of determining whether the opinions on tax conscious and tax ethics, which were aimed to test, were different or not. The basic hypotheses of the present study are as follows:

**H<sub>1</sub>:** The opinions of the Scientists of Finances on tax conscious and tax ethics are different in terms of their genders.

**H<sub>2</sub>:** The opinions of the Scientists of Finances on tax conscious and tax ethics are different in terms of their ages.

**H<sub>3</sub>:** The opinions of the Scientists of Finances on tax conscious and tax ethics are different in terms of their academic titles.

No hypothesis was formed for the propositions for the opinions on tax losses and tax evasions in Turkey and on their reasons, and only general statistical data were included for this field.

Based on the abovementioned data, the Reliability Test was performed to determine the reliability level of the scale. According to the Reliability Test, the value of the Cronbach Alpha was determined as 0,692. According to this result, it is possible to claim that the scale is "extremely reliable".

After the reliability analysis, general statistics on the opinions of the Scientists of Finances on tax losses and tax evasions are given. These results are given in Table 1.

**Table 1. The Opinions of the Scientists of Finances on the Tax Losses and Tax Evasions in Turkey**

Statements	N	Average	Standard Deviation
I think that the tax losses and tax evasions are at low levels in our country.	223	1,5067	0,6836
I think that tax revenues of the state are collected without missing points in our country.	223	1,7668	0,7707
I think that the majority of the clients pay their taxes in a voluntary manner in our country.	223	1,7220	0,6670
I think that the majority of the clients pay their taxes in due time period in our country.	223	2,0493	0,9066
I think that the levels of the tax losses and tax evasions in our country are much lower than the averages in the EU and OECD member countries.	223	1,9776	1,0020

According to the opinions of the Scientists of Finances, it may be claimed that the tax losses and tax evasions are high in Turkey.

When the opinions of the Scientists of Finances on the reasons of tax losses and tax evasions in Turkey are considered, it is possible to state the most important reasons are as follows:

- The tax amnesties and reorganization of the taxes that are enacted with certain intervals in Turkey (Average: 4,2780),
- The tax ethics has not been fully recognized in Turkey (Average: 4,2556),
- The tax conscious has not been fully established in Turkey (Average: 4,2332),
- The inadequate tax audits in Turkey (Average: 4,1256),

In addition to the abovementioned explanations, it was determined in the present study that the agreement between the Scientists of Finances and the statements on tax ethics and tax conscious were high (in general, above 4). Based on this finding, it is possible to claim that Scientists of Finances are extremely sensitive on tax ethics and tax conscious. However, the study hypotheses must be tested to investigate whether there are differences in terms of age, gender, and academic title.

The Mann Whitney U-test was performed in order to test whether there were differences in tax conscious and tax ethics in terms of gender; and as a result of the test, a significant difference was detected in the tax conscious factor at 10% significance level (Sig.: 0,084). Since the order average of the males (117,46) in this factor in which significant difference was detected was higher than that of the female participants (101,85), it is possible to claim that males have higher tax conscious than females. No significant differences were detected in the tax ethics factor. For this reason, the **H<sub>1</sub> Hypothesis** is accepted for the tax conscious factor.

The Kruskal Wallis H-test was performed to test whether there were significant differences in the tax conscious and tax ethics in terms of age; and a significant difference at 5% level was detected in the tax conscious factor (Sig.: 0,048). In this factor in which a significant difference was detected, the order average of the 61-year-old and older age group (151,13) was higher than that of the other age group. It is possible that the tax conscious of the Scientists of Finances in this age group is higher. No significant difference was detected in the tax ethics factor. The **H<sub>2</sub> Hypothesis** is accepted in terms of tax conscious. As a result of the test that was performed in terms of academic title, it was determined that there was a significant difference at 1% level in tax conscious factor (Sig.: 0,003). When the order averages in this factor are examined, it is understood that the order averages of the Scientists of Finances who have the title of "Professor Doctor" (144,43) were higher than those of other Scientists of Finances; and for this reason, it is clear that the tax conscious of the professors is high. No significant difference was detected in terms of tax ethics. The **H<sub>3</sub> Hypothesis** is accepted only for the tax conscious factor.

#### 4. Conclusion

The purpose of this research is to examine the awareness of public finance scientists on tax awareness and tax ethics and with tax avoidance and evasion in Turkey it is to uncover general thoughts concerning their reasons. According to the results; it can be said that the public finance scientists are very conscious about taxation ethics and tax awareness. According to demographic factors, there is no significant difference in tax ethics among scientists. In terms of tax consciousness, there are significant differences in terms of age, gender and academic title. According to the results, Among public finance scientists men have higher tax awareness than women. However, according to age, over 61-year-old scientists have higher tax awareness. According to the academic title, Prof. Dr. tax awareness of science people who have the title have come out higher.

In the second part of the questionnaire; After examining the opinions of public finances scientists about the level of tax loss and evasion in Turkey, general thoughts about the most important factors that cause the tax loss and evasion in Turkey are being investigated. According to the received answers that can be expressed at high levels of tax loss and evasion in Turkey. When we look at the most important ideas concerning the causes of tax avoidance and evasion in Turkey, respectively are as follows: tax amnesties issued periodically in Turkey and tax configurations, the lack of tax morality in Turkey, exactly the lack of tax consciousness in Turkey, it is the lack of a tax audit in Turkey. The general views of public finance scientists, who are at a high level of tax consciousness in terms of preventing tax losses and evasions in our country, are very important.

**Key Words:** Tax, Tax Evasion, Tax Loss, Public Finance Scientist

**JEL Codes:** H 21, H 26, K 34

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## A Brief Information about Harmonization of Tax Evasion Crime with Protocol No.7

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### 1. Introduction

After Republic of Turkey's ratification of Protocol No. 7, we begin to debate about how it will applied instead of purely academic debates. Protocol No.7's most important change about tax law is was inserting non bis in idem into the ECtHR's jurisdiction.

In our study, we will first try to explain the non bis in dem. Then we will explain the impact of the ECHR and the ECtHR on domestic law. After these explanations, we will try to analyze the current case law of the ECtHR concerning about non bis in dem and possible effects of the tax evasion crime. In the final part of our study, we will indicate how sanctions should be for the crime of tax evasion, which we believe will both not harm the treasury and also restore the disrupted public order.

Our aim in this study is to explain the reason for the incompatibility current imposed sanctions for the tax evasion crime with the ECtHR case law. We will try to propose a new sanction to tax evasion crime which compatible the ECtHR case law.

### 2. Protocol No. 7 and Non Bis in Idem

#### 2.1. Non Bis in Idem

This phrase, which is expressed in Latin "ne bis in idem" or in some places "non bis in idem", tells us that the same thing will not be repeated twice. On the other hand, its reflection in the penal law defines cannot be punished twice or cannot be prosecuted twice. Ne bis in idem is a basic legal principle of criminal procedural law which finds its roots in Roman law and applied in Church Law, and nowadays accepted by both local and international law. (Özen, 2010: 390)

Ne Bis in In principle traditionally expresses not to be investigated and prosecuted two times (emodet bisvexariprounaet eadem causa) and not to be punished twice (emo debet bispuniripro uno delicto) because of the criminal act. But the application of the principle differs from country to country, it is considered to be punishment only, and in some countries, it is foreseen that only one penalty will be given for a single act, but administrative sanctions are accepted as well. (Vervaele, 2005: 100). In this regard, the principle is also

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defined as the right not to be prosecuted or penalized. (Factsheet, Non-Bis In Idem, European Court of Human Rights, December 2017).

It is still controversial whether Ne Bis is a general principle of international law due to the changing interpretation of the principle from country to country and the different ways of its application. (Tongür, 2015: 343). Moreover, the problems born from interpretation differences regarding the implementation of the principle are mostly expressed in international applications or in federated states and federal state relations. Whether it is the typical crime or the prosecuted events that are subject to principle is a controversial point. In our local law system, the principle is not included in our Constitution but is in the additional protocol numbered 7 of the European Convention on Human Rights, which we are party to. On the other hand, Article 223/7 of the Code of Criminal Procedure Law formulates one of the appearances of the principle and sets forth that if there is a previous verdict for the same person (defendant) for the same offence or an opened case, reopened case is to be rejected. As can be seen, the principle consists of two elements, the same person and the same offence. The identity of the person shall be same in the indictment and the verdict (Özen, 2010: 393) In our local law doctrine there is no consensus on the nature and scope of the concept of offence which cannot be repeatedly prosecuted and punished. The doctrinal comments on what is understood from the offence in teaching differ according to the fact that the subject of the indictment or the evaluated crime claimed in the indictment which expresses legal characterization of the fact. (Özen, 2010: 392) The Court of Justice of the European Court of Justice, in the judgment of Van Esbroeck, remark that concrete facts should be taken as a basis and underlined the fact that concrete conditions, which are connected to each other in same space and time, must be considered. In this decision, the Court sought to prevent a person who exercised his / her right to free movement from being repeatedly punished according to his/her same criminal act due to the different interpretations of the Member States. (Tongür, 2015: 347)

## **2.2. Importance of Protocol No. 7 in Terms of Turkey**

According to doctrine, the main problem about ne bis in idem in Turkish tax code is originated from VUK article 367. and we can use ECtHR case law like Glantz v. Finland for finding a solution to this problem. (Geçer, 2016:337-338) Ne bis in idem, organized by Article 4 of the Protocol No. 7. This article is the transfer of a very important jurisprudence principle to an international dimension. (Kunter, Yenisoy, Nuhoglu, 2008: 125). Turkey has signed the contract and was put into force on August 1, 2016. Since that date, Protocol No. 7, which has become a norm of domestic law, in the case of contradiction with the domestic law due to its relation to fundamental rights and freedoms, will be implemented first.

Before the decision of Glantz v Finland, the ECtHR's approach since Zolotukhin v. Russia decision basically described such as, an administrative penalty and a judicial penalty for the same action have not contray to ne bis in idem. (Yaltı, 2015:86). As a justification for this ECtHR said, although these crimes were born from a single act, they must be regarded as different offenses according to their different qualities and that is not contray with ne bis in idem. (Yaltı, 2006:159-160).

ECtHR makes an assessment of whether a sanction is criminal in nature according to the Engels criteria. Basically these criteria is; The first criterion is the legal classification of the offence under national law, the second is the very nature of the offence and the third is the

degree of severity of the penalty that the person concerned risks incurring. (Radvan, Schweigl, 2016:6-10) If an application to be made due to tax evasion sentence Against Turkey probably the ECtHR will said, these sentence is not a compensation for loss of tax but a penalty for deterrence, also this punishment originated from a general code and the aim of sentence for tax evasion crimes is intimidation and punishment.

### 3. Conclusion

For the surcharge of loss of tax the three times fine plus tax and interest is aimed to deter and punish who cause tax evasion instead of the ensuring the payment or avoid treasury damage due to late payment. Because of that if there will be a case on ECtHR, the ECtHR probably determine that is a punishment instead of administrative fine. We can easily understand it is a necessity for fined three times administrative fine for loss of tax surcharge you have to avoid tax with an act which also means tax evasion.

Legislator have to make a selection, for tax surcharges, give up criminal penalties for tax evasion by imposing only monetary penalties or for a tax evasion which also leads to loss of tax, the legislator shall give up administrative fines and decide on a punishment on the ground of the proceedings to be made at the criminal court. Like many economical crimes the legislator can also select a fitter punishment for crime and decide to give a juridical fine and a prison sentence after a single criminal procedure. Because of single criminal procedure there will be no violation of ne bis in idem.

**Key Words:** Non Bis in Idem, Tax Evasion, Protocol No. 7.

**JEL Codes:** K14, K34, K38.

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# **The Complexity of Turkish Tax Legislation: The Analysis of the Readability of Income Tax Act, Income Tax Return Guides and Brochures**

**Seda Öner<sup>1</sup>**

**Mehmet Cural<sup>2</sup>**

## **1. Introduction**

Reducing the complexity of the tax system is an important issue for policy makers. Tax administrations and governments have attempted to simplify the tax system. Tax complexity can cause tax non-compliance behaviour among taxpayers, as well as compliance costs for taxpayer and operational costs for administration. These consequences of tax complexity can lead to loss of tax revenue for the state. First of all it must be determined the level of complexity, in order to reduce or eliminate the tax complexity, which is known to especially negatively affect taxpayers' tax compliance.

According to the literature, the readability of tax legislation is one of the important component that constitute tax complexity. The aim of this study is to evaluate Income Tax Act No 193 dated 31.12.1960 and income tax return guides and brochures' complexity in the context of readability. The findings of the study will contribute to determining the level of tax complexity over readability of tax legislation, limited to Income Tax Act and income tax return guides and brochures, which prepared by Revenue Administration.

## **2. Conceptual Framework**

Tax complexity is a multidimensional concept and as such it cannot be easily defined or uniquely measured. It apparently means different things to different people depending on their biases, perspectives or research interests (Tran-Nam & Evans, 2014:345).

Several measurement methods have been developed by researchers for determination of tax complexity. The OTS Complexity Index, which developed by the Office of Tax Simplification, is acknowledged the most comprehensive initiative. Various complexity measures have been identified in the OTS Complexity Index, including the readability of tax legislation. In addition, the index studies, which developed by Tran-Nam & Evans (2014) and Borrego et al. (2015), are available.

The empirical studies on tax complexity show that tax complexity is generally discussed in the context of understandability. The understandability of tax legislation mostly assessed in the context of readability (Tan & Tower, 1992; Smith & Richardson, 1999; Saw & Sawyer, 2010; Barney vd., 2012; Saad vd., 2014; Strauss & Toor, 2014; Umar & Saad, 2015). In these studies, the Flesch Readability Formula and the F-KGL Index, which developed to measure

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the readability of texts, are used to measure readability. The findings of these studies show that the readability levels of tax laws, which scope of research, are low. This result indicates that tax laws are too complex in the international arena.

As empirical studies on the measurement of the complexity of the Turkish tax system; there was found the studies, which determined the readability level of Income Tax Act, Value Added Tax Act and Corporate Tax Act with cloze readability procedure by Karabacak (2013) and calculated tax complexity scores according to the OTS index for Income Tax Act and Value Added Tax Act by Budak & James (2016). There are limited studies in the area of tax complexity in our country. It is deficiency in the arena because of the negative consequences of tax complexity. Thus it needs to be research in Turkey in this area.

### 3. Methodology

In this study, the readability of and Income Tax Act No 193 dated 31.12.1960 and income tax return guides and brochures, which prepared by Revenue Administration and published between 2006-2017, will be analyzed by the Flesch Readability Formula, F-KGL Index, Gunning-Fog Index and Ateşman Readability Formula.

Related formulas are derived from syllable, word, and sentence lengths to predict readability of texts. The readability level of the texts is determined by Flesch Reading Ease Formula and Ateşman Readability Formula, the level of education corresponding to the readability of the texts is determined by the F-KGL Index and Gunning-Fog Index (Flesch, 1948; Gunning, 1952; Kincaid vd. 1975; Ateşman, 1997).

### 4. Conclusion

Tax complexity is one of the important issues for government, due to costs to taxpayer and administration and negative effects on taxpayers' tax compliance. First of all the tax complexity level needs to be determined in order to tax simplification studies to be progress and evaluate clearly. However, in the literature shows that there is no compromised definition of tax complexity and tax complexity is considered as multidimensional concept. Furthermore, tax complexity studies measure tax complexity with different indicators. This makes tax complexity phenomenon more complicated.

Although it is not available measurement method that determines the level of tax complexity certainly, tax complexity is generally considered in the context of understandability in the literature. The empirical studies on this subject mostly assess understandability over readability of tax legislation. Thus the readability of tax legislation is one of the important component that constitute tax complexity.

**Key Words:** Tax Complexity, The Readability of Tax Legislation, Tax Simplification, Tax Compliance.

**JEL Codes:** H2, K30.

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## The Situation that Removes the Faultiness in the Scope of Tax Criminal Law: Vis Major and Results

Nazlı Kübra Çelik<sup>1</sup>

Hilmi Ünsal<sup>2</sup>

### 1. Introduction

In order for a criminal offense to constitute a criminal offense under the general principles of criminal law, it is necessary to appear as a consequence of a defective act of the offender. In the absence of a fault that can not be attributed to a person, it is not the case that a crime is committed even though the person is in fact committed. In the scope of tax penal law, there are cases where the defendant can not be attributed a fault to the defendant despite the actual transaction. In these cases, the cause of our work is the vis major, which is not predicted by the person beforehand and can not be removed or even prevented. Vis major is one that removes imperfection. The vis major is that it removes the imperfection rather than the penalty. In a case where the tax penalty will be fine, Article 373 of the Tax Procedural Law stipulates that no penalty shall be imposed if the duties stated in the law are not fulfilled except for the irresolute of the taxpayer and without any fault. The same Code, article of 13th, what kind of cases are mentioned as vis major. In addition to removing the vis major from the penalties, the results of tax law related to the processing of the periods are also examined within the scope of the study.

### 2. Vis Major and Results

The vis major set forth in Articles 13 and 15 of the Tax Procedure Law No. 213 is not defined by the legislator; tax law is what is said to be the reason for what could be a force. In the event of a vis major, the first two cases shall be deemed as coercive grounds and they shall be prevented from fulfilling any of the tax duties; in the other two cases it is due to reasons other than the obligation to leave the obscenity or the obscenity (Karakoç, 2016:196- 197).

Vis major must be evaluated in terms of their conditions and characteristics in terms of the detection of each case. It is not right to accept unconditionally that every event of a certain quality is absolutely vis major. Even if it is stated as a reckoning in his blood, the arrangement of "etc." at the end of the article explains this situation. However, the common characteristic of the phenomena described as vis-major is the inevitable and irresistible nature that comes to the fore outside the will. In this regard, vis major; such as earthquakes, floods, storms, landslides; war, revolt, insurrection, strike, human beings can also be human-like events (Öncel&Kumrulu&Çağan, 2014: 118- 119). Whether an event is vis major or not belongs to the tax administration. Taxpayers have the right to carry these claims to the

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judiciary if the tax administration does not accept the vis major claim (Öncel&Kumrulu&Çağan, 2014: 121). In addition to the Tax Procedure Law, the Turkish Commercial Code and the Value Added Tax Law also have various results in the vis major. These parts will be examined in detail on the basis of the article.

When the results of tax law are examined due to vis majorers, the most important result is to remove the faultiness. The disappearance of the faultiness will also reveal the consequence of the fact that the crime has not been committed. Vis majors also have a number of conclusions regarding the processing of periods in terms of tax law. In Article 111 of the Tax Procedural Law No. 213, payment times are arranged, and in the case of delay with vis majors, the maturity is determined as the day on which the extended employee ends. In Article 14 of the Tax Procedure Law, it is governed that the employee shall be determined by the administration in cases where it is not explicitly stated in that opinion. In the 15th article of the same law, which carries the title of "delayed by vis major"; it is stated that, in case of vis major, it is not possible to extend the time from the specified state to the rising state as a coercive cause and also the time period of accrual time is extended.

Parallel to the Tax Procedure Law, the periods in the Law on Collection Procedure of Public Receivables numbered 6183 will not be processed as long as vis major continues. As a matter of fact, the Council of State has decisions in this direction. (Council of State 4th Court, E. 1989/2535, K.1990/1153, 2.4.1990; DD, S. 80, s. 165, 166).

It stops the processing time vis major. In this case, the assignments made after the first conclusion of the deadline and the actions taken are deemed valid as if they were carried out on time. The vis major, which prevents the fulfillment of a specific taxation obligation, only pauses the period for that assignment. The time periods for the obligatory other assignments are on the way. (Yılmaz Furtuna, 2017: 96). The controversial issues of deadlines will be examined in more detail in the full text of the article.

### 3. Conclusion

Vis Major cases are a right to protection in respect of taxpayers, taxpayers and penal interlocutors. Within the scope of this right, possible criminal proceedings are avoided because of not fulfilling the duties in the period when the taxpayer is compulsive in case of validity, and forfeiture is over. However, the term "the forfeiture" The decisions of the Council of State show that vis major cases are only for taxpayers' duties. It is argued that there is no effect on institutions such as filing lawsuits, compromise, time limitations. (Erol, 2012: 221). In practice, this leads to injustice and the complexity of judicial decisions. Ultimately, the problem is solved by adding the fact that the results of the vis majors, taxpayer rights in Article 13 of the Tax Procedural Law are related to the relevant article. It is absolutely necessary for the taxpayers to clarify the "duty" and "rights" which are not clear in the judicial decisions of the Article 13 of the Tax Procedure Law. It is necessary to make an arrangement in the legislation in order to cover the taxpayer rights of vis major cases.

**Key Words:** Tax Criminal Law, The Faultiness, Deadlines, Vis Major

**JEL Codes:** K14, K34

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# **Examination of Duration in Turkish Tax Law in terms of Taxpayer Rights: Problems and Suggestions**

**Adnan Gerçek<sup>1</sup>**

## **1. Introduction**

Tax offices carrying out taxation activities shall perform their duties by establishing administrative actions and transactions within the duration stipulated in the law. Similarly, taxpayers must exercise their rights and fulfill their duties within the time specified in the law. The fact that the durations are clearly defined, constitutes one of the important guarantees that the taxpayers have against the administration. Therefore, the durations related to taxpayer rights can be handled as follows; the durations that provide the right to use taxpayer rights and the durations that provide the protection and assurance of the taxpayer.

In this study, briefly the protection of taxpayer rights and the duration of tax law will be explained and the ones related to taxpayer rights will be examined. Then, the durations that provide the right to use the taxpayer rights and the durations that provide the protection and guarantee of the taxpayer shall be dealt with. In addition, the problems experienced in the implementation of these will be put forward and proposals for solutions will be introduced.

## **2. Taxpayer Rights and Its Protection**

### **2.1. Taxpayer Rights Concept**

Originating from basic human rights existing in the legal system, taxpayer rights can be defined as rights which are held in the constitution, an international treaty, law or administrative regulation and protected taxpayers during the taxation process (Yaltı, 2006: 3).

Taxpayer rights arising from human rights and protected on the international scene can be considered as negative status rights. On the other hand, some of the taxpayer rights entail the obligation to "make or carry out" the state, and in this respect, the taxpayer rights are included in the positive status rights. Therefore, it can be said that the taxpayer rights have a mixed nature.

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## **2.2. Protection of Taxpayer Rights**

Depending on the legislative and executive traditions, cultures, and governance of the countries, the taxpayer's rights have been preserved in various forms of regulation and mechanisms. The primary protection of taxpayer rights is provided by constitutional and legal regulations. Afterward, judicial decisions, Constitutional Court decisions, Human Rights European Court decisions, ombudsman decisions and the work of taxpayers' associations are the mechanisms that protect the taxpayer's rights (Gerçek vd., 2015: 110).

## **3. Duration in Tax Law**

### **3.1. General Classification of Duration in Tax Law**

Duration in tax law is classified in different forms with a point of; their legal qualities, the unit of time they are expressing, or the persons they are related. The duration determined by the state bodies is classified; legal, administrative and judicial periods. The duration according to their legal qualities is classified as; disabilities duration, taxation duration, tolerance duration, time limit duration and regulatory duration (Karakoç, 2017: 258-260).

### **3.2. Classification of Duration Related to Taxpayer Rights**

Some periods in tax law is related to taxpayer rights. The periods related to taxpayer rights can be considered as follows; the periods that provide the right to use taxpayer rights and the periods that provide the protection and assurance of the taxpayer.

## **4. Duration of Use of Taxpayer Rights**

The durations allowing taxpayers to exercise their rights in Turkey are; the duration of application for administrative measures and the durations for application to judicial review. The taxpayers should pay attention to this period because they carry the qualifying duration as disabilities duration.

### **4.1. Duration of Application to Administrative Roads**

The durations for submitting applications to administrative roads may be classified as follows: the duration of reconciliation after imposition or reduction, the duration of application for correction of mistakes within the period of time limitation, the duration of time of the request for abandonment in case of natural disasters and the duration of application to the Public Auditor Institution (See. Şenyüz vd., 2018: 282-291, 336; Güçlü, 2010).

### **4.2. Periods for Application to Judicial Roads**

The deadlines for applications to judicial remedies can be classified as follows; Duration of filing a claim with the Tax Court against tax and punishment, Duration of filing a claim with the Tax Court against payment order and precautionary levy, Duration of filing a lawsuit

against the District Administrative Court through appeal, Duration of filing a lawsuit against the Constitutional Court through individual application.

## **5. Duration of Protection and Guarantee of Taxpayer**

### **5.1. Periods Recognized for Preparing the Required Preparations**

The durations allowed for taxpayers to make the necessary preparations for taxation procedures can be classified as follows: the duration of sending the invitation to reconciliation, the duration of showing the collateral, the duration in which the declaration of goods is made, the duration of information on demand.

### **5.2. Duration of Taxpayer Protection by Preventing Taxation Process**

Since the taxation procedures must be made within the durations set by law, it is prohibited to carry out transactions that are not carried out within these periods. Provisions protecting taxpayers by preventing taxation; the duration of tax assessment timeout, the duration of the tax examination and the time of completion of the call review (Bkz. Batun, 2013: 110-118).

### **5.3. Chartered Protecting Cases by Providing Extension of Duration**

There are some cases in tax law that lead to extended durations. These cases, which protect taxpayers by extending the tax durations, coercive reason, difficult situation, death, financial holiday and judicial holiday (Şenyüz vd., 2018: 237-247). In these cases, it has been possible to protect the rights of taxpayers by accepting the expense of filing taxpayers or filing suit.

### **5.4. Problems Regarding Duration to Provide Taxpayer Protection**

There are some uncertainties, problems or abuses related to taxpayer protection periods in Turkish tax law practice. These issues can be categorized as follows:

- Request for information and documents from the taxpayer in less than 15 days during the period of information on demand,
- Transfer of the file to the Appreciation Commission only to stop the estimated timeout period,
- Notification to be made in a manner contrary to the procedure in order to make notification within the timeout period,
- Continuation of the tax examination and issuance of a Tax Inspection Report despite the time limits set in its law.
- After the last regulations on the financial holiday, the taxpayer's protection is almost gone.

## 6. Conclusion

Taxpayers have been entitled to many rights during the special cases and transactions arising from the application of tax laws. However, some of the determined durations for taxation transactions are directly related to taxpayer rights. From this point of view, the durations can be classified as follows: the duration providing the use of the taxpayer rights and the durations providing the taxpayer protection.

The durations allowing taxpayers to exercise their rights in Turkey are; the duration of application for administrative measures and the durations for application to judicial review. The taxpayers should pay attention to this period because they carry the qualifying duration as disabilities duration.

The duration for providing protection to the taxpayer can be classified as follows: the durations granted for the necessary preparations, the durations protecting the taxpayers by preventing the taxation process, and the cases protecting the taxpayers by extending the periods. However, there are some uncertainties, problems or abuses related to taxpayers' protection periods in Turkish tax law practice. In order to prevent these, necessary arrangements must be made in the related items of tax laws.

**Keywords:** tax law, taxpayer rights, the durations, classification of the durations, protection of taxpayer rights

**JEL Classification Codes:** K34, K38, K39

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# The Taxpayer Rights Arising during the Tax Judging Process

Engin Hepaksaz <sup>1</sup>

Orçun Avcı<sup>2</sup>

## 1. Introduction

During the taxation process, there are administrative or judicial ways of remedies for disputes between the tax administration and taxpayers. In terms of both administrative and judicial ways of remedies, it is important that the balance of interests can be protected and the real nature of tax raising event can be reached. In this sense, within the framework of principles dominating to the tax judging, the rights as well as the liabilities of the taxpayers must be observed. When it comes to the disputes between the administration and taxpayers, the protection of such rights can contribute to the minimization of problems. The purpose of this paper is to determine and assess the taxpayer rights that arise in the tax judging process. To begin with, an overview to the tax judging will be presented. Then, the taxpayer rights will be dealt with within the framework of tax judgment principles.

## 2. An Overview of the Tax Judgment

Tax judgment law examines ways of judicial for tax and similar liabilities as part of the legal system. In this respect, the concepts of tax and fiscal judgment law must be distinguished from each other. Fiscal judgment law deals with the legality of fiscal events. Fiscal events examine the public revenues, expenditures and budget of state. The fiscal jurisdiction law is a broader concept than tax judgment law (Bayraklı, 2011: 159-160). The tax judgment law only deals with tax disputes about public revenues. There are two main functions of the tax judgment. These functions are judicial review and jurisprudence. Judicial review addresses checking of certain operations of the administration. At the same time, Judicial review provides an opportunity to reach to tax equity. On the other hand, the function of jurisprudence aims to clarify provisions and ensure to apply laws according to a legal and scientific understanding. The tax judgment is only one of the way of solutions of tax disputes. During this process, the administration or taxpayers aim to reach a final but a fair decision by making a case in front of the judicial organ. Compared to the other solutions on questions of tax issues, the judicial solution has a wider scope. One of the important reasons of this is that the lawfulness of the objective-regulatory processes can be judged (Yüce, 2015: 59).

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### 3. Principles Dominating Tax Judgment

The principles that dominate the taxation jurisdiction can be listed as inscriptiveness, principle of ex officio examination, collective judicial procedure, non-comparisons, evidence-free and economic approach principle. The principle of inscriptiveness means that, the administrative jurisdiction organs judges and decides on case file as a rule (İYUK art. 1). Here it is aimed to speed up the dispute and complete the dispute as soon as possible. The purpose of principle of ex officio examination is to ensure public welfare and order. Thanks to the principle of ex officio examination, judge evaluates and appreciates evidence freely and without constraint. With the help of the collective court procedure it is aimed to provide the sense of justice, especially in areas where expertise is required (Yüce, 2015: 67-68).

The tax judge does not apply comparison when interpreting tax laws. In case of applying to comparison, the principle of legality of taxes and article 73 of the Constitution is violated. This situation causes taxpayers to lose their legal security. The principle of freedom of evidence means that allegations made before the judicial organs, can be verify with every sort of evidences fit to the nature of the event. According to the article 3 of tax procedure code; *"The real nature of tax raising events and transactions made related to the events can be proved by any evidence other than oath"*. According to this provision, in the tax jurisdiction, all kinds of evidence can be used, except the expression of the witness not natural and clear related to the tax raising events (Tosuner & Arıkan, 2012: 125-126). The economic approach on the other hand is based on the principle of economic efficiency (Karataş Durmuş, 2014: 520).

### 4. Taxpayer Rights during the Tax Judgment Process

The taxpayer rights during the tax judgement process derive from the basic and general principles of judgement procedure. These rights are; right of petition and right of action, the right to hiring a lawyer and /or an attorney, the right to a fair trial, the right to confidentiality, the right to freedom of evidence, the right to demand a suspension of execution, and the right to individual petition to the Constitutional Court.

According to Article 125 of the Constitution, *"the way of judgments against all kinds of actions and transactions of the administration is open"*. For this reason, it is clearly regulated that people can apply to judicial remedy. This article expresses the right to apply to the court. The right to a fair trial is based on article 6 of the European Convention on Human Rights (ECHR), as well as article 36 of the Constitution. Another subject is the right to hiring an attorney. Taxpayers in the tax jurisdiction can propose their defenses and claims themselves, as well as let represent themselves with a attorney. However, there is no obligation to have a lawyer to file a lawsuit or to follow an opened case. The right to information is also an important taxpayer right and there is a closely relationship between the right to information and tax confidentiality. In this respect in the field of tax law too, the delicate balance between the right to information and secrecy of tax must have to be taken into account (Ağar, 2012: 366).

During the tax judgment process, the judge have the right to investigate spontaneously and collect the evidence. In this way, the sides have the opportunity to reach the evidence don't know and can't reach. Another right is to suspend the execution. This right is a legal measure



that protects the fundamental rights and freedoms of the individuals against acts and actions of administration until the end of the trial process (Gerçek al., 2015: 101).

## 5. Conclusion

There are ways of remedies of tax disputes both in the administrative and judicial sense. During the judgement process, within the framework of principles dominating to the tax judging, the rights as well as the liabilities of the taxpayers should be observed in order not to damage the relationships between the administration and the taxpayers. There are important rights for taxpayers, such as the right to file a lawsuit, the right to request a hearing, the right to petition, the right to demand a trial, and the right to freedom of evidence. As the taxpayer's rights take its roots from constitution and law, violations of taxpayer rights are not appropriate to the contemporary tax understanding and lead to legal problems between the administration and taxpayers. In order to facilitate the direct protection of these rights, we propose to add a separate chapter to the tax procedure code. In this way, it will be possible to make clear the taxpayers' liabilities as well as their rights in the tax procedure law.

**Key Words:** Tax Jurisdiction, Tax Judgment Principles, Taxpayer Rights.

**JEL Codes:** K34, H20.

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# **In the Context of Taxpayer's Right in Tax Auditing the Prohibition of Discrimination: An Analysis within the Frame of a Decision of Constitutional Court**

**Betül Hayrullahoğlu<sup>1</sup>**

**Onur Gök<sup>2</sup>**

## **1. Introduction**

The constitutional state is the state in which the constitution acts as an effective restraint on political administration to protect the uninvented areas of individuals (Erdoğan, 2010: 18-19). In this sense, the constitutional state requires that governments use the powers and authorities they have within constitutional boundaries and these powers and authorities are subject to judicial examination (Aktan, 1998: 16). According to Article 125 of the Constitution, because of all actions of the administration people can resort to the jurisdiction, but with the amendment made in Article 148, the claims regarding the rights violations of the public power can now also be subject to individual application control.

In this study, the contrary action of the tax administration against to the prohibition of discrimination, which is under constitutional protection, is examined within the framework of the decision of the Constitutional Court. The study also explains the works of the Turkish Tax Inspection Board carrying out for the protection of the taxpayer rights. In this respect, the study is important in terms of explaining the current principles of the Constitutional Court and explaining the works carried out by the Turkish Tax Inspection Board. Within this scope, by explaining the reasons leading to discrimination in the tax examination process and the reasons of discrimination, it is aimed to develop the proposals for the necessary precautions to be taken.

## **2. Taxpayer Rights in Tax Auditing**

The purpose of the tax auditing carried out in Articles 134-141 of the Tax Procedure Law is; the investigation, determination and the provision of the correctness of the taxes that must be paid. In the tax auditing process, taxpayer's rights must be protected. The protection of these rights, constitutes the obligation of both the tax inspectors and the tax administration to the taxpayers (GİB, 2007: 9).

In the tax auditing process, one of the rights that taxpayers have is the right to be treated in an equal and competitive manner. The basis of this right is, above all, the 10th article which prescribes that the equality under the law of the Constitution. Furthermore, in the first article of the Law numbered 5345, the implementation of the income policy, which is considered as the aim of the law, in justice and impartiality, and acceptance of the situation

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in the bill of taxpayer's rights published by the Revenue Administration that tax laws will be applied in a fair, legal, impartial and competitive manner constitute the legal basis of this right (Alpaslan, 2012). Failure to protect the taxpayer's right in the tax auditing process results in a breach of the discrimination law in constitutional review.

### 3. Taxation and the Prohibition of Discrimination

The non-discrimination obligation constitutes the basic and general principle for the protection of human rights. In this respect, the prohibition of discrimination is included in almost all human rights documents (Kalabalık, 2009: 159). Although discrimination is not directly defined in international conventions, it is seen that it is expressed in different contexts in many conventions (Karan, 2007: 148). Prohibition of Discrimination is expressed in Article 14 of the European Convention on Human Rights as "The enjoyment of the rights and freedoms set forth in this Convention shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status". The itemization here was made for the purpose of sampling, not limitation (Tezcan vd., 2011: 400).

The equal protection of law has been laid down by the 10th article of the 1982 Constitution by saying "Everyone is equal before the law regardless of language, race, color, sex, political thought, philosophical belief, religion, sect and so on." Although the 10th article of the Constitution is not regulated as a prohibition of discrimination, the principle of equality covers the prohibition of discrimination as a concrete measure norm (Anayasa Mahkemesi [Tuğba Arslan], 2014: 20). In other words, the principle of equality gives rise to the right to demand equal treatment or non-discrimination in respect of the beneficiaries (Özbudun, 2017: 156).

The European Court of Human Rights has always considered claims of violation of the right to discrimination in connection with a material right (Avrupa Birliği Temel Haklar Ajansı & Avrupa İnsan Hakları Mahkemesi, 2010: 60). The same approach is adopted by the Constitutional Court. In this context, allegations of violation of the prohibition of discrimination are not considered abstract and are handled in connection with fundamental rights and freedoms under the Constitution and the European Convention on Human Rights (Anayasa Mahkemesi [Onurhan Solmaz], 2012: 6). Taxes and similar financial liabilities are generally considered to be the property right in the context of the authority to control the use of the property of the state or the use of it in the public interest, since they have the purpose of regulating and controlling the use of the property (Anayasa Mahkemesi [Arif Sarıgül], 2013:8). For this reason, discrimination claims regarding tax and similar financial liabilities are assessed within the scope of prohibition of discrimination in the context of property rights.

There are decisions by the European Court of Human Rights to examine the prohibition of discrimination in the context of property rights due to taxation. For the Constitutional Court, it is the first and only judgement to examine the prohibition of discrimination in the context of property rights due to taxation. In this respect, the judgement has importance.

#### 4. Violation of Prohibition of Discrimination by Tax Auditing

In the study the violation of prohibition of discrimination by tax auditing is handled within the framework of the Constitutional Court's Individual Application Decision dated 01.02.2018 and application number 2015/6728. In the application, the Court examined the claim that the violation of prohibition of discrimination is violated by different applications of the loss of tax penalty because of the tax auditing which made during the period when the discounted excise duty was applied among the companies in the automotive sector. The Court has come to the conclusion that there is a violation of the prohibition of discrimination in the context of property rights.

#### 5. Conclusion

One of the rights that taxpayers have in the tax auditing is the right to be treated in an equal and competitive manner. This right is constitutionally guaranteed in the form of a non-discrimination law under the principle of equality. Especially new developments in the field of tax law, such as the right to individual application to the Constitutional Court and the right to appeal to the ombudsman, have brought serious development to the point of taxpayer rights. Because of these developments, the tax administration is not indifferent but carries out various studies. Some of them can be listed as Taxpayers' Rights Circular in Tax Inspections, the Code of Professional Ethics Code of Conduct and Rules, Taxpayer Portable Practice and in-service trainings. In addition to these important works, the establishment of independent commissions charged with the work of protecting taxpayer rights, to carry out the research and development activities that examine the world applications for the protection of taxpayer rights by the tax council, entitle the right to the taxpayers to reject the inspectors, the systematic follow-up of judicial decisions and the sharing of results with the inspectors are thought to be beneficial in protecting taxpayer rights and avoiding violations of rights.

**Key Words:** Taxpayer Rights, Tax Auditing, Prohibition of Discrimination, Property Right, Individual Application.

**JEL Codes:** H26, K34, K38, M42

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## Evaluation of " Türkiye İş Bankası Judgement" of the Constitutional Judgement" of the Constitutional

Abdullah Tekbaş<sup>1</sup>

### 1. Introduction

In a tax audit regarding employer contribution to the Pension Fund, it was determined that even though the income was defined as a wage under the Income Tax Law (GVK), income tax and stamp tax was not paid over the contribution payment. Tax audit reports have been prepared for these and tax demands have been sent to branches of the Bank for 2007 and 2008 years, and tax payments which found to be missing were requested within penalties and interest. Therefore some of regional administrative courts accepted the lawsuits against the taxation, but most of regional administrative courts and Danıştay ruled against the Bank. Accordingly, the issue was brought to Anayasa Mahkemesi (AYM) by the way of individual application. The case was registered with number 2014/ 6192 and AYM found a violation and ordered compensation because of absence of "foreseeability condition" as a necessary condition of the intervention to the property rights.

The case attracted attention of both academicians and lawyers and became subject to the various studies. The subject of this study is an evaluation of this judgment. In this scope; evaluation will be made under the assumption that contribution payments are subject to taxation, regardless of whether the contributions are subject to taxation.

In the present issue, there has not been an attempt by the government to apply taxation for these kind of contributions until 2012, while the contribution had been paid and the rules were in force for many years. After the tax audit held in 2012, taxation begun to apply as a result of determination made by the report on technique of taxation. However, taxation procedures have been applied to start from 2007, not from 2012. The reason for this past effective practice is the 5-year accrual of time limit set forth in Article 114 of the Tax Procedure Code (VUK). 5 year time-limit allows to carry inspections as far back as 2007 and following years in case that a taxation loss is detected. At this point, the question whether such past effective taxation is legal emerges. This work seeks to find an answer in this issue in the context of the VUK (Tax Judiciary) and the Constitution (Constitutional Judiciary).

### 2. An Evaluation at the Level of Tax Law

In examining appeals against taxation based on the taxation period, Danıştay has found justifiable that the taxation process is to start on the date of payment of the contribution shares, besides the taxation procedure starting from 2007 <sup>2</sup>.

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<sup>2</sup> Danıştay Dördüncü Dairesi'nin 24/12/2013 tarih ve E.2013/6879, K.2013/10433 sayılı kararı; Danıştay Üçüncü Dairesi'nin 23/12/2013 tarih ve E.2013/10314, K.2013/6399 sayılı kararı.

Request for tax on the payment of contributions for the previous years according to Article 369, paragraph 2, and sentence 1 of the Tax Procedure Law (VUK) is unlawful. By added provision to the VUK in 2010 that "*In the event that a decision is changed in the general communiqué or circulars of the competent authorities regarding the manner of application of the judgment, it is effective from the date of publication of the general communiqué or circular regarding the new opinion and opinion and can not be applied retrospectively*". According to that; new application will be effective since the publication date of related *the general communiqué or circular* in the case of a decision is changed in the general communiqué or circulars of the competent authorities regarding the manner of application of the judgment competent authorities. Such change shall not apply to the circumstances prior to the publication date of the notification or circulant issuing the amendment.

The aim and purpose of this new regulation, which was recently settled before the date of the dispute, is clearly stated on the grounds of the amendment of the law. The following explanation has been made on the grounds then the necessary explanations are included: "*...as long as there is no amendment to a statute, it will not be appropriate to postpone a retroactive taxation on the basis of a change of opinion and opinion, since change of absolute opinion or an opinion made by administration in a certain period is not foreseeable by taxpayers*". Therefore, the purpose is to remove the retrospective taxation.

The most important result of this regulation is that it brought an exception for 5 years rule to the accrual prescription regulated in Article 114 of VUK. As a result of changes in absolute opinion and opinion, no item will be subject to taxation which is not considered to being taxed before the dates changes occurring in opinions. In other words, no retroactive taxation can be made in line with this change of opinion. When the issue of dispute is evaluated within the scope of this provision; it may be seen that the authorities have changed their absolute opinions and opinions without those changes have not been announced by the general communiqué or circulars. Taxation can only be started by 2012 when this change has emerged through tax examination.

However, the process has been ignored by the Danıştay, which has not been operated such a fairly obvious provision of 369/2, and it has been accepted that taxation from the 2007 taxation period is legitimate. It is not understandable that the regulation of 369/2, which is a very advanced regulation in terms of legal security of taxpayers, is neglected by the judiciary. In the case that this regulation is taken into consideration, it is possible to resolve the dispute at the level of the Tax Judge. But the dispute has been the subject of the AYM due to the negligence.

### **3. An Evaluation at the Level of Constitutional**

In the examination of the dispute (2014/6192), the AYM examined the dispute on two occasions; one occasion is whether or not the deductible is subject to taxation and from which period the tax is to be taxed. Other occasion is being due to the nature of the event brought before. In the end of examination, AYM made judgment, considering second occasion, that the property right has been violated.

The Court has laid down the provisions of the Constitution and the European Convention on Human Rights (ECHR) for the protection of property rights and has referred to the conditions necessary for the interference with the property rights to be legally admissible. After

indicating that the publication of the provisions of the Personal Income Tax Law (GVK) provides the "accessibility" sub-clause (which is the source of the intervention), AYM evaluated whether the other condition, "foreseeability", was fulfilled. Firstly, the Court mentioned the provisions of the Constitution and the European Convention on Human Rights (ECHR) for the protection of the property right in the appraisal. In this section Court listed its assessments as below:

- The interference with the right to property must be made in a meaningful sense by law,
  - The legal principle established in Article 73 of the Constitution provides legal security to taxpayers by requiring "certainty" and "foreseeability" of tax liabilities,
  - In this respect, the Constitution provides more comprehensive protection than the European Convention on Human Rights,
  - The property rights are not absolute rights, that can be limited,
  - In order for the restriction to be lawful, it is necessary to provide "public interest", "lawfulness" and "proportionality" principles.
  - In the examination of the intervention, it is determined that the examination should be made in terms of "being law-based", the sub-criteria of this criterion are "accessibility" and "foreseeability".
  - Foreseeability is the fact that the law will be provided by law through clear, clear, and clear, but that there cannot always be an open account in which case the clarity can be achieved through sub-legislation and precedents.
  - When dealing with the law-based, the limitation is only made by law. It is not possible to limit sub-legislation.
  - The fact that the tax is essentially an interference on the property rights,
  - According to other areas, the state has a broader appreciation of tax interventions.
- After giving general principles on the protection of the property right, the assessment part has been passed. In this section assessments of AYM listed below:

- Administration has never got an attempt for taxation of contribution payments which establishment made in 1974 of and it has been paid by taxpayers since then. Therefore Administration has not been in judicial jurisprudence.
- Upon the dispute after the tax examination made in 2012, it is decided that the disbursement of the Danıştay in accordance with the law in 2013. And the tax payment of contribution are started.
- The basis of taxation, is Article 61 of the Personal Income Tax (GVK).
- In the concrete case, the dispute arises from the debate on whether judicial decisions can not be made clear from the provisions of the law on when the benefit of Fund contributions is paid to employees.
- It can not be excluded from the discussions made in judicial decisions, if benefits are obtained are clear and clearly defined by the provisions of the law when the contributions to the Foundation are paid.
- In this case, the interpretation of Danıştay that the benefit is acquired in the date of contribution payment is unforeseeable.
- The taxpayer's perception that the contributions are not subject to taxation, and that perception is supported by the Supreme Court practice and the bill given for another institution in favor.



AYM, which has made the above evaluations, found a violation on the grounds that the interference with the property rights through taxation which is not foreseeable in terms of the taxation process based on the 2007 taxation period.

Various studies have been carried out that focus on assessments and the result announced by criticism. In a study, it is claimed that Türkiye İş Bankası judgment and some of the other judgments of the AYM, variable or strategic overview of the law and legality. Because in the judgment, after emphasizing the principle of lawfulness that the taxation process must be based on a statutory provision but it is stated that there is a need for administrative and judicial interpretations to provide clarity in the application of the rule of law in respect of concrete events. It is not possible with the abstract norm system to wait for the payment of taxation as the individual wage (typicality) in the law after the regulation of (in other words, a "typification" in accordance with the Constitution) the basic elements of the tax in terms of taxation of the wage. In some cases this can be done exceptionally. For example, Article 61 of the GVK stipulates that certain incomes are subject to remuneration in the GVK application. However, it is not possible to generalize this. It is therefore not the same as providing sub-legal regulatory clarity in the context of a substantive event relating to taxation with the introduction of a new tax under the law and amendments. Practice of providing clarity of law with sub-legal arrangements, as a result of objective interpretation of both the abstract norm system and the interpretation methods it requires, it is an application that should necessarily be included in the law. In the context of the dispute issue, the judgment of the AYM is also in this direction. It is not possible to participate in the criticism that the lawfulness principle is loosened and there is a ground shift. The main worry here is not to grant authority to the executive or judicial bodies to provide clarity in law through interpretation. The main concern is that these organs go beyond the limits of this interpretation and jurisdiction. This is exactly what happened in the matter of dispute. In the relevant decision, the Danıştay has led to an exacerbation of this legal debate. In this regard, the main problem arises not in relation to the quality of the law but in relation to the quality of interpretation.

On the other hand, the AYM judgment concerns the notice issued in the year 2012 for the 2007 taxation period. In this context, the AYM said that taxpayers in 2007 could act on the taxation of the contribution o in 2012. There is a violation as a result of the fact that the judge cannot foreseeable that the judge will decide in this direction. The AYM said that it would not be possible to get a retroactive tax based on these later interpretations. Otherwise, he did not say that these comments and the gaps in the law can be filled in for the period and after the interpretation, and that these interpretations can be taken as basis for taxation.

In another study <sup>3</sup> of the subject, in the AYM judgment; it was decided that the contribution payment would not be taxable because it was not a legible, accessible and foreseeable legislation. It is stated that the reason for the opposition in the decision of the Danıştay is based on non-binding judicial decisions and a court when this decision is justified. As can be seen from the above analysis of the AYM judgment, it has not been decided that taxable contributions will not be taxable and it has been decided that tax deduction for the 2007 taxation period with the transaction made in 2012 is unforeseeable for taxpayers. While this

<sup>3</sup> Ömer Faruk Batırel, Vergi ve Mülkiyet Hakkı İhlali: Bir Anayasa Mahkemesi Başvuru Kararı İncelemesi, İstanbul Ticaret Üniversitesi Sosyal Bilimler Dergisi, Yıl:14, Güz, Sayı:28, 2015/2, s. 13-20.

unforeseeability is being revealed, it is based on the factors that are emphasized in terms of the taxpayer's perception.

#### 4. Conclusion

The AYM's Türkiye İş Bankası Judgment is an important violation judgment on the interference with the property rights through taxation. It shows the importance of this dispute as a subject of study by scholars and judicial bodies.

Danıştay has decided against retroactive taxation on contribution payments which made by Bank on behalf of their employees.

AYM has not addressed the question of whether or not the payment of contributions are subject to taxation, but has assessed the legality of past taxable transactions in terms of principles for the protection of the property rights as an answer for the individual complaint against decision of the Danıştay to AYM. The focus of the AYM judgment is conditioned by the requirements of interference with the right to property. It is determined that the foreseeability of the judgment cannot be concluded and it resulted in a violation. This judgment is the first and most important judgment concerning remedy of individual application. However, contrary to the claims in the literature, the judgment does not yield to creating tax obligation in non-legislative regulations, and therefore to loosening of the legality principle. This judgment cannot be construed to have such consequences. Lastly, the judgment does not rule against the taxation of the contribution payments.

**Key Words:** Constitutional Jurisdiction, Tax Law, Taxation of Wage

**JEL Codes:** K0, H20

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# Budget Systems and Evaluation of Turkey

Özhan Çetinkaya<sup>1</sup>

## 1. Introduction

At the beginning of the 20th century, the states were busy searching for ways to increase the efficiency of their activities. In this direction, rather than allocating funds to the needs of government departments, which are expected from the state budget, the desired purposes of reaching have been determined and it has been investigated to what extent they are reached. The systems used in the preparation of the budget in this frame have gained importance.

Budget systems are important tools developed to help the efficient use of resources. The issue that keeps us busy with day-to-day budget preparation in the past is about finding answers to the question "How can we get more benefits if we use resources less?" When we look at this point, we will try to argue with this study; how important the budget systems are in budget preparation, what kind of budget system we want to implement and whether we are aware of our ability to implement the system we have found. Our goal is to show that the program budget and performance-based budget system are being implemented and applied in Turkey is different from the conventional budget system for determining the budget figures.

## 2. Development of Budget Systems

The systems used in the budget preparation started with the classical budget and the continued with the performance budget. While classical budgeting is expressed in the literature as a system, it does not have the qualifications to fill the concept of "system". The first budget preparation application that has been improving as a system has shown itself with performance budget. In the following years, the performance budget system was followed by the program budget, the planning-programming and budgeting system (PPBS), and the zero-based budgeting system. In the 1990s and 2000s, the states developed new practices in the budget preparation system as performance based budget system and introduced new features in the system. The zero-based budget system in the literature did not have much application among states, but only in the 1970s in the USA (Falay, 1987: 178)

### 2.1. Classic Budget System

In classical budgeting, governments have been busy allocating the funds needed by public administrations to those accounts. In order to perform the duties of the public

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administrations, besides the payments such as wages and roads, they have also concentrated on the purchases of consumables, fixtures and supplies. It was examined whether the appropriations allocated in the classical budget application oriented to the allocation of expenditures on the basis of expenditure items were used in place. In other words, importance is given to audit. The budget classification used is classified according to the expenditure items and according to the administrations. In the preparation template of the budget sheet, "Chapter" and "Article" are coded.

## **2.2. Performance Budget System**

The performance budget system, which is regarded as the preparer of the program budget system, and the granting of the appropriations given to the public administrations according to the expenditure items, has been abandoned by thinking that the giving of the services should be aimed to achieve the highest aim. How much allowance do you want to pay to public administrations in the budget preparation for this framework? how much allowance do you want for the purchase of materials? Beyond such questions, the purpose of the administrations and what purpose they wanted to pay for is focused on. Therefore, objectives, targets and programs will be set forth and their costs will be calculated, the priority programs will be determined and the works, activities and materials to be produced will be finalized (Edizdoğan & Çetinkaya, 2017: 155). The budget classification used by the system will be "functional classification". Accordingly, the services will be determined and the costs of the services will be calculated by coding the services. For example: In the calculation of the cost of the training service, the appropriations of each public administration using the appropriation for training shall be collected.

## **2.3. Program (PPBS) Budget System**

Although the name of this system which is improving as the program budget is sometimes referred to as PPBS, PPBS and planning element have been added beside similar features. Program budget system is a continuation of performance budget system. The program budget was also mentioned in conjunction with the budget (Falay, 1987: 57). The program budget was also based on a service-based classification and the organizational budgets were partly taken into the second plan, focusing on the program-based separation of resources. The program focuses on programs that incorporate different institutions within the budget, a service. PPBS has a broader understanding of the program than the budget.

## **2.4. Zero-Based Budget System**

The zero-based budget system does not throw away other modern systems. It is only necessary to oversee the programs and reallocate the manager's appropriations as they see fit. In other words, in this system, no expenditure items will be automatically included and will be re-examined to the extent of relative priority. Administrators will be offering a budget appropriation with an understanding starting with zero lira in a sense, rather than a budget proposal based on prior grants according to the priorities of the programs and activities. Valuations will be held every 2-3 years.

## 2.5. Performance Based Budget System

This system of program budget system that has been implemented in Turkey after 2006, beginning with the abandonment. The essence of the system is based on making institutional strategic plans and making it happen with the performance program. In other words, the institutions make annual programs to realize the objectives of the 5-year strategies. The year-end status of the program called "performance program" is described by "activity report".

## 3. Evaluation of Budget Systems

Modern budget systems that have been put into practice after the classical budget system have focused on efficiency in the use of resources. Especially when looking at the issue in terms of Turkey, stay in force until 2006 of program budget, which was applied in 1973 after classical budget, then transition to performance-based budget system, the question of how far the effective use of resources has been achieved? has been moved to agenda. It is difficult to measure the efficiency of expenditures with system changes due to population growth, social developments and increasing public expenditures. However, it may be possible to evaluate the system changes from the assessment of the general budget figures. This perspective also has classical budget. In the criticism of the classical budget, "making inflation appraisal on the basis of last year's figures" is an important criticism. Does the understanding of budget allocations on the budget in the context of the use of resources in this framework continue in the performance budget system of the program budget and after the program budget of the classical budget "making past year allocation data for the new year budget"? Does this mean that we still can not get rid of the effects of the classic budget? This point of view should be discussed.

## 4. Conclusion

When we examine the central government budget figures, the image that emerges is that the budget figures increased more than the inflation rates from 2000 to 2017. This does not explain the role of budget systems in the effective use of resources. At the same time, it does not emphasize the importance of changing budget systems. In other words, changes in budget systems did not affect budget figures. In fact, modern budget systems may require budget figures to decrease from time to time in the effective use of money. However, this is not seen. Among the reasons for the changes in the budget should figure in Turkey took place inflation and monetary and fiscal policies. Then we can say that the budget system is changed, but the change of the budget figures is not based on a change based on the system change but rather it is completely policy-based. If we take up the role of the budget systems, we must say that we can not get rid of the classical budget understanding when considering the budget template used for the transition to the program budget and if necessary the budget templates used for the transition to the performance based budget. This situation will be covered and illustrated in the narration of the paper. When reviewing budget templates, it is unfortunately the same from the classical budget template to the performance based budget template. It is possible to use the term "**Doğan looking Şahin**" for our budget system inspired by the transformation of Tofaş / Şahin brand vehicles into Tofaş / Doğan brand vehicles in the automobile sector in the 1980s. It is necessary to state

that we can not get rid of the classical budget (Şahin) concept even though the performance-based budget (Doğan) expression is inspired from this statement in our country.

**Keywords:** State Budget, Budget Systems, Budget Practice

**JEL Code:** H60, H61, H69

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# Budget System Approaches in the Context of New Public Finance

Recep Emre Eriçok<sup>1</sup>

## 1. Introduction

This study is important for public budget and public fiscal administration approaches in “new public finance”. As a method of study, it will be tried to produce a comprehensive study by making various researches of theory, literature and legislation. Within the scope of the study, it will be addressed the historical process in the context of both the functions and the methods of public finance, and it will be tried to be produced new approaches on public finance especially public budget in the context of new public finance.

## 2. New Public Finance

The public finance approach has been become somewhat more limited with the privatization approach that emerged in the 1980s, and has been become effective again with the impact of the global crises that emerged later. In this context, it has been realised some regulations as new public management, new public administration and new public fiscal administration approaches on the functions of public finance. Especially nowadays, the approach of the realization of public services with public-private partnerships (PPP) has become quite common.

The need for public services has increased highly nowadays. Along with the development of technological opportunities, some international public services that their externalities pass the national boundaries, have been emerged (Bulutoğlu, 2004: 165).

When looking at the development of public finance, it has been seen a stage concerning statist and closed economy in the first stage which is called the traditional public finance; a stage that borderlines between public and private sector are becoming porous, and public-private partnering takes off in the second stage which is called new public finance 1; a stage that borderlines between domestic and foreign relations are also blurring, leading to public-private cooperation and competition behind and beyond national borders in meeting global challenges in the third stage which is called new public finance 2 (Kaul & Conceição, 2006: 6).

## 3. Developments in the Public Budget

Along with these changes in public revenues and public services, some structural measures are also on the agenda for the realization of the fiscal functions in the sense of the reorganizing of public budget and public expenditure-finance administrations. These measures propose for implementing the program budget and the zero based budget

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approaches as well as the performance-based budget approach that is particularly effective in nowadays' budget applications.

In our country, together with the application of The Public Fiscal Administration and Control Law No. 5018, since 2008, it has been passed as general application to the performance-based budget concerning the efficient, effective and economical use of resources in the framework of fiscal transparency and accountability principles and formed from strategic planning, performance program, budgeting, monitoring and evaluation and activity reports. Recently, it has also been tried made to develop methods for implementing the Program-Based Performance Budget Approach which will include the program budget approach (T.C. Maliye Bakanlığı Bütçe ve Mali Kontrol Genel Müdürlüğü, 2017: 3-4).

Thus, the program budget approach is also indicated among the basic principles of public finance in the article 5-g of the Public Fiscal Administration and Control Law No. 5018. In addition, according to the article 9 of the Law, public administrations are tasked with preparing the strategic plan in the framework of both of the budget approaches. The Public Fiscal Administration and Control Law No. 5018 accepts as a principal the determination of the job to be done in point of quantity and quality, the measurement of the job done after the job is done, by saying that it is necessary to determine the measurable targets and criteria that should be included in the program budget-performance budget techniques, to measure these with indicators which their accuracy are specified when the job is done (Bulutoglu, 2004: 56).

In short, the performance budget, the program budget, and afterwards other budget approaches are basically not different systems from each other, they are the continuation and the preparation of each other. Thus when looking at the program budget approach, it has been seen that it based on a long time dimension, for this reason, it tried to predict the level that the programs and outputs to be obtained will arrive to in the next years, cover the future time dimension is its most evident feature, it provided that decision-makers understand the obligations will be formed with their decisions they will take because it includes the next forecasting process in a way that will contribute to the performance based budget approach (Falay, 1995: 51-52).

With the adoption of the program budget approach, after the 1980s, it has been passed to a period that the performance based budget approach is adopted. In addition to these applications, it has been seen that budget consolidation methods (as global budget in the context of public budget, The Single Treasury Account in the context of public expenditure and finance administration, The Single Treasury Current Account, and The Single Treasury Institutions Account frequently expressed in the recent period) are also on the agenda.

The global budget has been become a popular cost-containment technique, especially in the wake of the large cost increases most countries experienced in the 1970s and 1980s (Liu, 2003: 36). The main purpose of this technique is to control and, if necessary, reduce public expenditures. Public expenditure and finance administration in our country was made through the method of The Single Treasury Account opened in the Central Bank and the Ziraat Bank from 1972 until 2007. In 2007, it has been passed to The Single Treasury Current Account method instead of The Single Treasury Account method by being signed a protocol between The Ministry of Finance, The Undersecretariat of Treasury and The Central Bank. At the end of 2010, by being passed to the Public Electronic Payment System (PEPS), in the center and in the country, all payment and collection transactions of all accounting units of



the offices included in the general budget have been begun to be realised by being collected in one place in electronic environment. In the near future, it is stated that in addition to the administrations included in the general budget, special budget administrations, Regulatory and Supervisory Institutions, SGK, İŞKUR, extra-budgetary funds and revolving funds organizations will be covered by an arrangement to be made under the title of the method of The Single Treasury Institutions Account (Eğilmez, 2018).

#### 4. Conclusion

When looking at the results obtained within the scope of the study; as in the world, in our country, new methods and suggestions that can be produced can provide important contributions in this area to provide maximum benefit output intended for the conditions of efficiency, effectiveness and economy which are the basic features of the performance-based budget approach; in public budget which is being given a lot of importance nowadays on budget approaches, in public fiscal administration and therefore in public expenditure and finance administration. The features of the program budget approach considered to be added to the performance based budget approach can also be evaluated within this scope. Nowadays, it has been seen, the global budget which is beginning to apply in most public service areas, the budget as The Single Treasury Institutions Account, public expenditure and finance administration's practices and recommendations on public fiscal administration, as innovations that can benefit to the public budget approach in the context of new public finance.

**Key Words:** New Public Finance, Public Budget, Public Expenditure-Finance Administration, Performance Based Budget.

**JEL Codes:** H60, H61.

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# The Exemption to the Authority of the President to Send Back the Laws: The Budget Law

Hüseyin Güçlü Çiçek<sup>1</sup>

Süleyman Dikmen<sup>2</sup>

## 1. Introduction

In the 89<sup>th</sup> Article of the 1982 Constitution Act titled “*Promulgation of laws by the President of the Republic*” it is stated that “*The President of the Republic shall promulgate the laws adopted by the Grand National Assembly of Turkey within fifteen days. The President of the Republic shall send the laws that he deems, in whole or in part, unsuitable for promulgation, along with the justification, back to the Grand National Assembly of Turkey for reconsideration in the same period. In case of being partially deemed unsuitable by the President of the Republic, the Grand National Assembly of Turkey may discuss only those articles. Budget laws shall not be subject to this provision*”. The assessment of legal and fiscal justifications of the inability of the President of the Republic to send budget laws back to Grand National Assembly of Turkey (GNAT) is the main objective of the study. In this context, by using GNAT records the legislative discussions and justification of relevant articles of the constitution acts are assessed, opinions in the literature are addressed.

## 2. The Authority of the President to Send Back the Laws

In order laws to enter in force they should be published in Official Gazette. According to 89th Article of 1982 Constitution Act “*The President of the Republic shall promulgate the laws adopted by the Grand National Assembly of Turkey within fifteen days.*” The President may send those laws that he/she deems unsuitable back to GNAT for reconsideration. The purpose of the authority to send back, which is legitimised to the President, is to warn legislative organ (Tanilli, 1982: 320). By calling the attention of the Assembly it is desired the law to be reconsidered and to be enacted complete, errorless and Constitutional (Metin, 1996: 171). According to the 3rd paragraph of 89th Article of the Constitution, if the law sent back for reconsideration is accepted by GNAT without any amendment, it is promulgated by the President. If GNAT makes a new amendment in the law sent back, the President may send the amended law back to the Assembly for reconsideration.

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### 3. The Inability of the President to Send the Budget Law Back to the Parliament for Reconsideration

According to the 2nd paragraph of the 89th Article of the Constitution Act *“The President of the Republic shall send the laws that he deems, in whole or in part, unsuitable for promulgation, along with the justification, back to the Grand National Assembly of Turkey for reconsideration in the same period. In case of being partially deemed unsuitable by the President of the Republic, the Grand National Assembly of Turkey may discuss only those articles. Budget laws shall not be subject to this provision.”* According to the related Article, the Budget Law cannot be sent back to GNAT by the President for reconsideration. In the rest of the section, the legal and financial causes of this situation are examined.

#### 3.1. Legal Nature of the Budget

Those functions that have been severed from the executive organ in the historical development process constitute the traditional functions of legislative organs and these functions are the *raison d'être* of legislative organs. The traditional functions of the legislative organs are; the discussion and approval function of the laws, inspection and supervision of execution function, fiscal function, judicial related function and administrative function (Teziç, 2004: 390). Today, in democratic parliamentary regimes citizens use their fiscal functions indirectly, through their representatives. In order to construct legal guarantee, the budget institution has regulated the power of purse and financial management firstly through laws and then through constitutional acts (Öner, 2009: 66).

Although budget is a constitutional institution it is not the same with other laws in terms of its legal nature. Some laws such as budget law are different from other laws in terms of both principles and procedures. Unlike other laws, as budget law does not contain general, abstract, objective and permanent rules, it is counted as a formal law instead of a material law. Budget law has a nature of condition-procedure (Özbudun, 2011: 204; Gözler, 2011: 872; Tanör & Yüzbaşıoğlu, 2012: 299-300; Teziç, 2004: 13). Budget law does not create a new rule of law and under existing rules it allows for one year to the revenue collection in the national level and to the realisation of public expenditures. In other terms it constitutes the condition of these allowances (Özbudun, 2011: 204). Behind this characteristic that separate budget law from other laws rests a historical tradition. The first functions severed from the execution by the legislation organ are the fiscal functions. Legislative organs attained their legislation (enacting a law) authorities after their fiscal functions. Besides, the preparation of budget law, negotiation and adoption and the promulgation process of budget law are subject to different procedures unlike other laws (Gözler, 2011: 873).

#### 3.2. The Historical Development of the Inability of the President to Send Back the Budget Law to Parliament

According to the constitutional history of the republic of Turkey, as a result of political, social and economic developments five written constitutions, namely the Ottoman Basic Law dated 1876, the Constitutions dated 1921, 1924, 1961 and 1982 respectively, were made; in the interim periods these constitutions have undergone several changes. Although there are various provisions regarding budget in the Constitutions dated 1876 and 1921, the inability of the President to send the budget law back to the Assembly took part for the first time in

the Constitution dated 1924. In the 35<sup>th</sup> Article of the Constitution dated 1924, the following provision takes part regarding the inability of the President to send budget laws back to the Assembly for reconsideration: *“The President of the Republic shall promulgate in ten days of its enactment any law voted by the Assembly. The President of the Republic must return within ten days any law which he does not consider worthy of promulgation, together with a statement of his reasons, for consideration by the Assembly; amendments to the constitution and legislation concerning the Budget are not subject to the President’s suspensive veto. The President is obliged to promulgate any law which is enacted by majority vote of the Assembly after reconsideration.”* In 1945 the language of the constitution was simplified, in 1952 the constitution was revised with the language of ex-1945 period. In 1960, plenty of articles, including 35<sup>th</sup> Article, were repealed due to the political conditions within the country.

The tradition of inability of the President to send the budget laws back to the Assembly in 1924 Constitution Act, were preserved in 1961 and 1982 Constitution Acts. A similar provision took place in 1924 Constitution Act and in its justification it is stated that the relevant article stemmed from 1924 Constitutional Act. With 1982 Constitutional Act, the ten day- duration of the promulgation of laws and reconsideration in the Assembly was extended to fifteen days. Furthermore, the provisions that in case of a new amendment in the law sent back, the President may send back the amended law to the Assembly and constitutional amendment related provisions were added to the related constitution text. With the constitutional amendment made in 2017, *“with absolute majority of the total member number”* phrase was added to the 89th Article *“If the Grand National Assembly of Turkey adopts the law sent back without any amendment, the law shall be promulgated by the President of the Republic.”*<sup>3</sup>.

### **3.3. The Causes of the Inability of the President to Send Back the Budget Law to Parliament**

There are two basic causes of the inability of the President to send back the budget law to the GNAT for reconsideration. The first is that budget law is a periodic law; secondly power of purse is a right that belongs to legislative organ.

#### **3.3.1. The Periodicity Nature of Budget Law**

The budget law adopted by the GNAT and approved by the President on December 31<sup>st</sup> at the latest is published in the Official Gazette before the new fiscal year. The due time, namely till the beginning of new fiscal year, characteristic of the budget has caused the budget discussions to be limited with a certain amount of days (Gözler, 2011: 877). The Council of Ministers should submit the budget proposal at least seventy five days before the beginning of new fiscal year to the Grand National Assembly of Turkey. Fifty five days of these seventy five days are reserved to the Budget Commission and the rest twenty days to the General Assembly. In the budget discussions it attracts attention that the rights of deputies to take floor and the durations of speech are limited (Gözler, 2011: 877). Deputies pass their opinions on capital budgets during the general discussion parts of each budget in the General Assembly; the chapters and the motions of change are read and voted without

<sup>3</sup> The relevant constitutional amendment is going to enter into force following the inauguration of the President as a result of the Grand National Assembly of Turkey and Presidential elections.

any discussions. During the discussions of budget law proposals in the General Assembly, deputies could not suggest any expenditure-increasing or revenue-decreasing proposals. If the budget law could not be enacted till the beginning of new fiscal year, the activities of the government would be paralysed (Özbudun, 2011: 222).

### **3.3.2. The Power of Purse as a Right of Legislative Organ**

Together with the Magna Carta in 1215 first steps were taken for depriving the sovereign government of the power of purse and give it to the society (Adams, 1899: 106). After the emergence of modern democracies, the power of purse has started to be used with the legislative organs representing the society. However the power of purse has proceeded to the society with a lasting and compelling process. The concept of power of purse for which bloody efforts were made and high prices were paid has come to express today that the society or the authorised representative organs of it have the right to decide where and how much to be spent by the government and for these expenditures what liabilities would be imposed to the society (Gürsoy, 1980: 56).

Budget is prepared by the executive organ, and discussed and approved by the legislative organ. The final decision about the budget belongs to the legislative organ and the organ uses the budget as a medium for supervising the execution in terms of politics (Yılmaz & Biçer, 2010: 202). Therefore the power of purse is the most crucial trump of legislative organ against the execution. Sending back the budget law to the Assembly for reconsideration by the President means the sharing of the power of purse with the executive organ.

## **4. Conclusion**

In the study the exemption of budget law from sending back to the Assembly for reconsideration by the President under the provisions of the 89th Article of the Constitution dated 1982 is discussed. Budget law differs from other laws as it does not contain general, abstract, objective and permanent rules. With these courses of the budget law, beyond being a law it is a conditional process. The budget law is the condition of the allowance given to the execution by the legislative organ.

There are two reasons of the inability of the President to send the budget law back to the Assembly for reconsideration. First, the budget law is a law that is accepted for a one year time and it should be promulgated by the President till the beginning of the new fiscal year. If the budget law cannot be prepared until the beginning of the fiscal year, there would be failures in the public activities. In order to avoid these failures it is determined that budget laws, together with the constitutional amendments, could not be sent back to the Assembly by the President for reconsideration. Secondly, the power of purse is a right that belongs to the legislative organ and legislative organs do not want to share their right, which is attained as a result of a lasting and compelling process, with the executive organs. As the authority of the President to send the budget law back to the Assembly for reconsideration means the sharing of this authority with the execution, legislative organs object this authority of the President. In this context, with this exceptional provision that is given to the budget laws the conflicts between legislation and execution and within the execution have been hindered noticeably. On the other hand, it is mentioned as a criticism that the budget laws would be out of the supervision of the President, review of the law would be impossible, and it would

cause some bypasses such as the inclusion of provisions that are not relevant with the budget into the budget laws. In such cases the Constitutional Court, which is an inherent part of the principle of the state of law, steps in.

**Key Words:** Budget Law, Promulgation of the Laws by the President, Power of Purse.

**JEL Codes:** H60, H61

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## Budget Deficit Problems and Financial Consolidation Practices in the Ottoman Empire after the Tanzimat

Tekin Akdemir<sup>1</sup>

Şahin Yeşilyurt<sup>2</sup>

### 1. Introduction

Budget deficits are an important question that narrows the area of states' in fiscal space and makes it harder to carry out sustainable economic policies. In order to establish a sustainable public finance structure and prevent macroeconomic instabilities, it is necessary to produce policies for solving this problem. Although it has been intensively discussed in the last century, the budget deficits and the effects of the deficits have become a major problem to look for a solution for decision makers and policy makers in every period of history. For example, significant efforts were made to close high budget deficits in Spain in the 16th century, in France in the 17th century and in England in the 18th century and a number of policies were developed on this occasion. Similar to these countries, budget deficits were an important part of the Ottoman public finance and the budget deficits and public financing problems that emerged in the late 16th century became a structural problem in the 19th century. While there are studies in the literature on Ottoman budgets, these studies have been limited to examining the revenue and expenditure structure of existing budgets, the precautions for closing the deficits in the budget have not been adequately addressed in these studies. For this purpose, in this study examining the budget deficits in light of archival documents in the Ottoman, we focused on addressing the measures to reduce budget deficit in the post-Tanzimat period. We also aimed at evaluating these measures aforementioned period. These evaluations, which are carried out in the scope of the archive documents, makes the study important and original and it is also expected that the study will contribute to the literature in this respect.

### 2. The Place and Importance of the Budget in the Ottoman Public Finance System

The budget, which show the public expenditures and revenues that are needed for the financing of these expenditures, is the most important means for social service demands to respond to the political process. As budget revenues and expenditures are a means of achieving the economic, social and political goals of government, the budget surplus or deficit formed by the difference between revenue and expenditure gives information about the financial situation of the countries and in particular in the case of unsustainable deficits,

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the implementation of policies aimed at eliminating the budget deficit is intensely on the agenda.

Historically, budget deficits have been at the forefront of the economic problems that the government has been seeking to solve, especially after the 18th-century wars with increasing debts triggered by the deficit arising as a result of this war reached an unsustainable point. The unsustainable structure of the budget deficit brought about the restriction of the public activities of the state in countries such as mainly England and Germany, France and Spain, and it is inevitable to take measures to eliminate budget deficits. Similarly, the open budget problem and the excessive debts accompanying it constituted an important problem in the Ottoman, especially in the mid-19th century, external borrowings originating from budget deficit led the state to a fiscal blockade in as little as 20 years.

When we consider the Ottoman fiscal system as part of budget practices, it was seen that whether the budgets applied in the Ottoman Empire express a meaning in modern sense and there was intense debate about the first budget year (Sahillioğlu, 1967: 79-80; Tabakoğlu, 2005: 83), in addition that, because of they based on both the netting method and allocation principle, it was stated that these budgets did not reflect the real revenue and expenditures of the Ottoman (Barkan, 1955: 194-195). Despite the criticism about the validity of the budget applied in the Ottoman Empire and the actual budget sizes, it has been observed that a strong budgeting culture used throughout Ottoman history, that the state's revenues and expenditures have been taken into account since its foundation and that the budget tradition has been respected even during extraordinary periods such as war and economic depression (Genç ve Özvar, 2006:12-14).

As a matter of fact, the documents found in the Ottoman archives and the studies revealed based on these documents confirm the above evaluation of the Ottoman budget tradition. It is possible to list the studies in this area as Barkan (1955), Sahillioğlu (1967), Sahillioğlu (1985), Cezar (1986), Güran (2003), Tabakoğlu (2005), and Özvar (2006). These studies, which constitute the basis of the studies on the Ottoman budget, have an important position in the Ottoman public finance literature in terms of showing the information about the period of the Ottoman budget in general and showing the amounts of the revenue and expenditure items included in the budgets of the related year. However, these studies do not directly address the measures taken to overcome the budget deficits that have occurred during the period under review. In this sense, this study differs from the mentioned literature in terms of aiming to examine the measures taken by the 'state administration' to clarify the deficiencies that have occurred in the budget of the post-Tanzimat period in the Ottoman through archives.

### **3. The Measures Implemented to Close Budget Deficits**

At the basis of the weakening of the Ottoman public financial system since the end of the 16th century lies the thought that the timar system was deteriorated. The deterioration in the timar system showed its effect during the wars and it is accepted that this deterioration was an important cause in the conclusion of wars against the Ottoman Empire. Both the deterioration of the timar system and the loss of wars caused irreparable harms in the Ottoman public financial system, especially in the provision of new sources of revenue and in the collection of existing revenues.



The deteriorations which were seen in the Ottoman public financial system since the late 16th century increasingly continued in such a way that it influenced profoundly its financial system in the following centuries. Even though it achieved the success with some applications like change in tax collection methods, resorting to domestic borrowing, going to debasement, seizing of senior administrators' inheritances, applying of stock shares (esham) in order to generate a high amount of revenue through spreading domestic borrowing to whole society, controlling public revenues and expenditures through Reforms such as the Tanzimat and Islahat, in the elimination of these negative effects on the financial system, these measures were not been long-term and the Ottoman budgets were in tendency having budget deficit since the 17th century. Especially from 1840 until the 1900s, except for the fiscal year 1862, the Ottoman budgets gave a deficit (Yeşilyurt & Cural, 2015: 169).

In the post-Tanzimat period, it was decided to take a number of measures in order to eliminate the deficits in the Ottoman budget and it was stated that expenditures were made in the state departments to lead to the separation in 1861 archives and it is requested to postpone non-compulsory expenditures and to give an end the same "kind of aid" that was allocated to military personnel to pay for each institution's budget (A. MKT. NZD 358/64; A. MKT. NZD 358/66). In document of 1879, it was stated that the budget figures did not reflect the reality and that the state revenues were lower. Thus, in the same document which was noted that the budget deficit was actually higher than the actual situation, it was emphasized that it is necessary to take some precautions in public revenues, public expenditures, banknote (kaime), and borrowing policies to eliminate the problem. In this way, in the event that the financial power which was coincident with military power cannot be corrected, the state can be collapsed, in this context, the requirements of the measures contained in the document are emphasized (Y. PRK. ML. 1/68). In the 1890 dated document, it was desirable to not spend extra budgetary expenditure unless it was difficult, to prevent widespread misappropriation and wastage in the state budget, to shift officers employed in unnecessary jobs to areas where they will be more beneficial. In addition, it was demanded that some new procedures and principles be put in the collection and consumption of public revenues and that the collection should be accelerated (DH. MKT. 1730/20).

In the 1905 dated documentary, which stated that additional public administrations were needed due to the increased work seen in the public sphere, it was underlined the demand for additional civil servant employment and there was a shortage of appropriations allocated to the existing public administrations. However, these demands did not seem to be accepted because these requests would further increase the deficit in state budgets (DH. MKT. 2609/104). In the documentary dated 1911, which was stated the fact that the budget deficit is now in a phase that cannot be covered by borrowing because of the lack of a warranting for this loan, it is desirable that some of the revenue allocated to the offices should not be used, especially in the last months of the year, in order to avoid any inconvenience in public finances (DH. MB. HPS. M. 2/13; BEO 3919/293906).

In spite of the difficulties in obtaining debt, in 1911, it was attempted to borrow from France before the closure of the budget deficit; but when this debt attempt failed to succeed, a will was later revealed to be borrowed from German and Austrian banks. Ottoman public financial administrators, who did not obtain a positive result from these, required by ministry to record the expenses they need in order to be able to show the expenditures at a lower level than the previous year's budget expenditures. Otherwise, it is pointed out that these debt relations are negatively affected as no guarantees can be given to the borrowings

made due to the budget deficit (BEO 3919/293906). In this framework, in the documentary signed by the Minister of Finance for the closure of the budget deficit of 1912 year, it was written that required 7 and a half million liras and that give a guarantee by increasing in province customs (MV. 163/73).

#### 4. Conclusion

The deterioration of the Ottoman public financial system since the end of the 16th century further deepened and inconsistencies between public revenues and public expenditures increased. These inconsistencies, which took place in the form of budgetary deficits, became permanent in the 19th century and a number of measures were put in place in the post-Tanzimat period in order to overcome these deficits. Firstly, unnecessary expenditures leading to waste and non-essential expenditures were prevented, later on, some reforms were made in both the collection of public revenues and expenditures. In addition, the importance was given to the priority in controlling external debt and avoiding heavy interest burden and new measures like the elimination of the unfavourable public finance, the closure of unnecessary civil service units or the shifting to unnecessary areas, the acceleration of tax collection applied and important steps were taken to eliminate budget deficits in the following periods.

**Key Words:** Budget Deficits, Budget Deficits in Ottoman, Budgetary Policy After Tanzimat, History of Ottoman Public Finance.

**JEL Codes:** H62, N01.

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# An Econometric Analysis of the Relationship Between Economic Growth and Tax Revenues in Turkey: An Ardl-Bounds Test Approach

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Hamza Erdoğan<sup>2</sup>

## 1. Introduction

The purpose of this study is to examine the relationship between gross domestic product, a general measure of the growth of the country's economy, and tax revenues, output of taxation which is the main action of governments' fiscal policies, in the period of 2006 -2017 in Turkey using monthly data. The ARDL-bounds testing approach is used to examine the long-run cointegration relationship between the variables. In this context the importance of the study is the question whether the relationship between gross domestic product and tax revenues. It is important of in terms of increase of the tax revenues. If gross domestic product has increased tax revenues have increased.

## 2. Literature

Granger, C. W. J. and Newbold P. (1974) have analyzed major consequences of regression analysis. They had said it has been well known for some time now that if one performs a regression and finds the residual series is strongly auto correlated. Dickey, D. A. and Fuller W. A. (1979) have explained distribution of the estimators for autoregressive time series with a unit root. Pesaran, M. H. & Smith, R. J. (1998) have explained structural analysis of co integrating VARs too. Pesaran, M. H., Shin, Y. & Smith, R. J. (2001) have developed a new approach to the problem of testing the existence of a level relationship between a dependent variable and a set of regressors, when it is not known with certainty whether the underlying regressors are trend- or first-difference stationary.

Siverekli, E. (2003) has explained the relationship between growth of the country's economy and tax revenues. Akar, S. and Şahin, Ö. U. (2015) have explained the buoyancy of tax system in Turkey is analyzed with monthly data of centralized executive budget tax revenues and industrial production index (IPI) for the period of 2005 January to 2014 June by means of cointegration and error correction models.

## 3. Methodology

Developed by Pesaran and Shin (1999) and Pesaran et al. (2001), the ARDL-bounds test approach determines if there exists a cointegration relationship among variables. The methodology has a number of advantages compared with other conventional cointegration tests. The first and most important is that it can be applied if the variables in the models are

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$I(0)$ ,  $I(1)$  or mixture of both. The second, it is constructed as a single-equation giving simplicity of application and interpretation. The third, it allows different optimal lag lengths to be assigned for different variables in the equation.

In the first step of the ARDL-bounds test approach, an unrestricted error correction model is established. This model is as follows:

$$\Delta \ln taxrev_t = \alpha_0 + \sum_{i=1}^m \alpha_{1i} \Delta \ln taxrev_{t-i} + \sum_{i=0}^m \alpha_{2i} \Delta \ln gdp_{t-i} + \beta_3 \ln taxrev_{t-1} + \beta_4 \ln gdp_{t-1} + \varepsilon_t, \quad (1)$$

$\Delta$ : difference operator,  $m$ : optimum delay length,  $\varepsilon_t$ : error term, and abbreviations of the variables used in the study.

To test for the existence of a cointegrating relationship between variables, a bound test based on the  $F$  test statistic is applied after the lag length  $m$  in equation (1) is determined. The null hypothesis,  $H_0: \beta_3 = \beta_4 = 0$ , implies that there is no cointegration between variables. The  $F$  calculated test statistic value is compared with the lower and upper critical values of the table in Pesaran, Shin and Smith (2001). If the calculated  $F$  test statistic value is less than the critical value, the null hypothesis that no cointegration occurs is accepted. If the  $F$  test statistic value is greater than the upper critical value, the null hypothesis is unacceptable, which means that cointegration occurs. By determining the existence of cointegration, long and short term relationships between variables are investigated by establishing lagged autoregressive models.

#### 4. Data

Monthly electricity consumption as a proxy variable to represent the monthly gross domestic product (*gdp*) and monthly tax revenues (*taxrev*) in the central government budget realizations are used for the period of January 2006 - June 2017. It would be possible to model shorter-term effects by preferring monthly data instead of annual or quarterly data.

The time series used in econometric analysis must be stationary. Granger and Newbold (1974) state that spurious regression problems can be encountered if the series are not stationary. According to the ADF, suggested by Dickey and Fuller (1979), and PP, developed by Phillips and Perron (1988), unit root test results, the seasonally adjusted and log transformed monthly *Intaxrev* ve *Ingdp* series become stationary at first differences, called  $I(1)$  series.

To test the existence of a possible long-run relationship between gross domestic product and tax revenues, an unrestricted error correction model is first established. For this purpose, based on Akaike Information Criteria (AIC) model selection criterion, the autoregressive lagged distributed model is obtained, given in Table 1 below.

**Table 1. ARDL (6, 0) Model Estimation Results**

Variable	Coefficient	Std. Error	Statistics	Probability
Intaxrev(-1)	-0.047236	0.087070	-0.542502	0.5884
Intaxrev (-2)	0.223264	0.089008	2.508357	0.0134
Intaxrev (-3)	0.309565	0.090444	3.422722	0.0008

Intaxrev (-4)	0.076124	0.089611	0.849501	0.3972
Intaxrev (-5)	0.112117	0.087544	1.280692	0.2027
Intaxrev (-6)	0.184938	0.087611	2.110893	0.0368
Lngdp	0.412265	0.201552	2.045452	0.0429
C	-1.645357	0.813308	-2.023042	0.0452

The results in Table 1 suggests that the autoregressive lagged distributed model in which the tax revenues is estimated as a dependent variable is ARDL (6,0). The model implies that the tax revenues variable is explained by the current values of the economic growth variability as well as the lagged values of up to six months starting from one after the other.

After determining that the error terms of the model do not have autocorrelation problems, the bound test is applied. The test results, based on the ARDL (6, 0) model, are given in Table 2 below.

**Table 2. The Bound Test Results**

$k$	$F$ - statistics	Critical Values at %1 Significance Level		Critical Values at %1 Significance Level	
		Lower limit	Upper limit	Lower limit	Upper limit
1	8.558803	4.94	5.58	3.62	4.16

**Explanation:**  $k$  represents the number of independent variables in equation (1).

The value of the calculated test statistic for the bound test is 8.56 which exceeds the upper critical bounds values at the 1% and 5% significance levels. The test results show that there is a long-run or equilibrium relationship between tax revenues and economic growth.

## 5. Conclusion

This study attempts to investigate the long-run relationship between tax revenues and economic growth for Turkey. In the first step, the ADF and PP tests are used to confirm both the variables are stationary and integration orders. Then the ARDL-bounds test methodology is conducted to explore the long-run relationship between tax revenues and gross domestic product.

The main findings of this paper are: (1) The variables, tax revenues and gross domestic product are positively high correlated with each other. (2) There exists a long-run or equilibrium relationship between tax revenues and gross domestic product consistent with Akar& Sahin, 2015:11. (3) An increase of 1 percent in economic growth leads to an increase of 2.92 percent in tax revenues (called the tax buoyancy-coefficient).

The empirical results of this study provide policy makers a better understanding of the relationship between tax revenues and gross domestic product to formulate tax policies.

In finally, there is important relationship between economic growth and tax revenues.

**Key Words:** Tax Revenues, Tax Buoyancy, Economic Growth, ARDL-Bounds Test

**JEL Codes:** C 19, E62, H21, H29.

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## How Taxpayers React to Tax Increase?

### A Qualitative Analysis on Motivational Factors towards Tax Increases on Social Media

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#### 1. Introduction

Considering the scale of modern public goods and burden of their costs on government budgets, governments often take an action to increase taxes in order to balance the costs of public spending. However, taxpayers are understandably reluctant about accepting such policy change and in some cases, the reaction may lead to regression or even evasion. Hence, while some of the resulting taxpayer reactions are within the legal boundaries, others may occur outside of legal boundaries and constitute criminal elements. Although, going beyond the legal frame to show reactions toward taxes, the reactions or even protests against taxes are not always solely depend on taxes or their increases. Taxpayer reactions might be affected by other concepts that constitute their conciseness over the tax system and government policies. In this study, we aim to craft a framework by pursuing the concepts/factors that fuel reactions towards tax increase to identify related concepts that tax literature highlighted such as tax justice, government trust, corruption perception, satisfaction of public services, splurge, patriotism, tax amnesty influence, taxpayers' income, education level, perception of tax administration, justification and opportunism. In order to create a framework that guides us to understand taxpayer reactions to a tax increase, we took an opportunity of 2017 changes of tax system in motor vehicle tax (MVT) and increase of the third bracket of personal income that caused unprecedented social reaction over social media and press. We focused on the social media reactions that posted on Twitter, one of the most used social media platforms in Turkey, and gathered data from trending topics (hashtags) during the period of 27<sup>th</sup> of September 2017 and 14<sup>th</sup> of October 2017 which was the period of the proposed tax increase had introduced to public. We gathered 20.984 tweets (over 100.000 words) from eleven trending topics such as "Tax Addition", "MVT" and "Income Tax". The data was analysed with thematic analysis, which is a suitable and popular technique for analyzing qualitative data. Although the analysis still in process, we aim to present preliminary findings of the analysis in this conference. Nevertheless, this research has a unique contribution to the literature as it is the first attempt to categories social media reactions over a tax increase in Turkish context and it also contributes international literature on categorizing the motivations of taxpayer reactions over a tax increase.

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## 2. Literature Review

When the literature is examined it is seen that there are many factors shaping the taxpayers' reactions to taxes. Some of the factors stems from internal motivations and some from their social circle (external) which can shape their reactions to taxes. Demographic characteristics such as education level and income level from internal factors; it can create motivation for individuals to react to the taxation. Education raises the awareness of the benefits and services that the individual will pay (Torgler ve Murphy, 2004:313). Individuals who have knowledge and awareness about taxes might differ according to their level of education.

Taxpayers' patriotism and trust of government can also be determinant in their reactions to taxation. Alm (2010); argues that patriotic sentiments can be effective in motivating individuals' economic behavior. It is believed that the trust to the government increases compliance of taxpayers and makes them less likely to react to a tax increase (Gencel ve Kuru, 2012:34).

Another factor is considered to be tax justice (Çetin, 2007:178). Taxpayers who find tax system fair are also found to be more compliant than others (Gökvd., 2013: 270). Additionally, the concept of tax burden in relation to the notion of justice in taxation affects the attitudes, behaviors, and reactions of the taxpayers (AktanveÇoban, 2006:140-141). The level of tax burden might lead individuals to evade (Şahpaz ve Saruç, 2012).

Tax amnesties also create negative psychological impact on the taxpayers who can be regarded as honest who fulfill their tax duties on time is a negative aspect of the tax amnesty (Şenyüz, 2014:96).

Perception of corruption and waste in public services and satisfaction of public services are one of the external factors that direct the volatility reactions of the individuals. It is expected that the taxpayers who think that the tax paid is returning as a public service will have less reaction to the tax. (Demir ve Küçükilhan, 2013). The splurge and corruption in public services affects the citizens' justice beliefs and affects the tax compliance in a negative way (Tunçer, 2002:119).

Upper mentioned factors are used as justification of the tax reactions in the literature and they are used to create a framework to be the base of the analysis in this study. In the full length of the paper the framework would be presented.

## 3. Methodology

In this study, the motivations of taxpayer reactions are analyzed by qualitative analysis method "thematic analysis" following Braun and Clarke (2006). Basically, there were three main steps involved in the data analysis performed in this study. Firstly, the researchers transcribed the recording into written text. The second phase was the process of coding the data, finding related themes, and analyzing the themes to check for consistency. The gathered tweets were classified according to the predefined conceptual framework and analysed by using Nvivo10 software.

#### 4. Preliminary Findings of the Study

On September 27, 2017, "Draft Law on Amendments to the Law and Decree Law" presented to the parliament by the Ministry of Finance with various tax laws and amendments. In this draft changes such as personal income tax, motor vehicle tax, corporation tax, tax on luck games, customs tax, private consumption tax on various products, special communication tax are included. From these planned changes, the increase of personal income tax from 27% to 30% and the implementation of motor vehicle tax to 40% faced with more reactions by thought taxpayers more than the other tax changes. This issue, which has entered the agenda of the country, has also been a subject of debate in various social media platforms. 20.984 tweets were reviewed and separated according to the predefined conceptual framework. 4.021 of these tweets corresponded to a particular concept, while 16.936 were not classified as such because the content was inappropriate (being newsworthy, being libelous, irrelevant topic, daily repeating to many times, having advertisement content)

According to the preliminary results reaction is improved through %32.3 of trust sentiment to government, %15.8 of opportunism, %12.4 of justice in taxation, %9.5 of tax incidence, %6.5 of other reasons, %4.3 of tax amnesty, %3.1 of splurge, %1.9 of cost of living, %0.06 of patriotism, %0.06 of corruption, %0.004 of education, %0.004 of education, perception of tax administration. It is seen that changing speed of tax laws and justification does not have impact on taxpayers' reactions.

**Key words:** MVT, Income Tax, Turkey, Twitter Analysis

**JEL Code:** H24, H22, H23

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# **The Relationship between Unionization and Social Expenditures: Is it Possible to Speak of a Policy-feedback Effect?**

**Mehmet Hanefi Topal<sup>1</sup>**

**Ufuk Özer<sup>2</sup>**

## **1. Introduction**

It is an undeniable fact that trade unions have positive effects on the development of today's modern welfare states (Hall & Soskice, 2001; Thelen, 2001). A considerable volume of previous research has revealed that trade unions have also positive effects on economic performance, redistribution of wealth, unemployment rates, wage levels, and social protection (Golden, 1993; Howell et al., 2007; Donado & Walde, 2012; Jaumotte & Buitron, 2015). However, the literature includes a relatively small volume of empirical research addressing the relationship between unionization and social expenditures. The purpose of this study is to investigate whether trade unions have an effect on social expenditures and whether social expenditures lead to a policy-feedback effect that enhances the influence of trade unions. To this end, the study empirically analyzed the probable reciprocal relationship between unionization and social expenditures using the data of 24 OECD countries from 1990 to 2015.

## **2. The Relationship between Unionization and Social Expenditures**

The rate of trade union density in a country is considered an indicator of the level of unionization in that country, while the rate of social expenditures is considered an indicator of welfare-state strength. Trade unions have historically been an important factor in shaping the welfare state. According to a widespread view, however, - especially after the 1980s - trade unions are no longer as strong as before in the social policy-making process and welfare states have, in parallel, entered into a serious retrenchment/crisis process (Pierson, 2000; Hall & Soskice, 2001). According to the policy-feedback theory in the face of this pessimistic approach, the political power of all non-state collective policy actors including trade unions is associated with the extent to which governments have allowed these actors to mobilize (Campbell, 2003; Ebbinghaus et al., 2011). From this theoretical perspective, an increase in social expenditures leads to a policy-feedback effect that also increases the political power of trade unions (Hooghe & Oser, 2016). Previous empirical research analyzing the relationship between unionization and social expenditures has focused, in particular, on whether unionization is a determinant of social expenditures but neglected the probable effect of social policies on organized labor (excluding Hooghe & Oser, 2016). The present study addressed the reciprocal relationship between unionization and social expenditures. Accordingly, it formulated the following hypotheses:

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*Hypothesis (1): Trade union density (unionization) has an effect on social spending.*

*Hypothesis (2): Social spending has an effect on trade union density (unionization).*

### 3. Analysis

#### 3.1. Data and Method

The study used the data of 24 OECD countries from 1990 to 2015 to analyze the relationship between unionization and social expenditures. Relationships between the variables were estimated using panel data methods. The Hausman test was used to decide whether the fixed-effects estimation method or random-effects estimation method is appropriate. The assumptions of autocorrelation, heteroscedasticity, and cross-sectional dependence were tested using the Durbin–Watson statistic, the modified Wald test, and the cross-sectional dependence (CD) test, respectively. According to the results of all these specification tests, the fixed-effects model was found to be appropriate and the standard errors were also statistically significant. Thus, the estimation results were obtained using Driscoll-Kraay robust standard errors. Trade union density and social expenditures are the main explanatory variables of the research models. Following Hooghe and Oser (2016), this study used left-wing government, voter turnout, GDP per capita, period effect, economic growth rate, trade openness, unemployment rate, the proportion of the elderly population, and urbanization rate as the control variables of the research models. Differently from their study, this study also included tax revenue, public debt, and the level of fiscal decentralization in the control variables of the research models considering that they are also among the determinants of social expenditures.

#### 3.2. Empirical Findings

Table-1 shows the estimation findings of the first hypothesis. According to the common estimation findings of all the models in which the lagged value of trade union density and additional control variables are included, the effect of trade union density on social expenditures in OECD countries is positive and statistically significant. Thus, the hypothesis (1) of the study is empirically supported. During the period from 1990 to 2015, a 1% increase in trade union density led to about a 0.04 % increase in social expenditures. Thus, the positive effect of trade union density on social expenditures is weak. However, considering the statistical significance of this effect, it seems that unionization is a determinant of social expenditures in that period. Additionally, among the control variables, tax revenue, unemployment rate, and the proportion of the elderly population have a high positive effect on social expenditures.

**Table 1. The Impact of Union Density on Social Expenditures**

	(1)	(2)	(3)	(4)
<b>Union density</b>	0.051** (.024)		0.037** (.014)	
<b>Union density<sub>(t-1)</sub></b>		0.053**		0.043**

		(.024)		(.015)
<b>Left party</b>	-0.015 (.072)	-0.013 (.077)	0.043 (.070)	0.032 (.076)
<b>Voter turnout</b>	0.006 (.016)	0.017 (.013)	0.008 (.011)	0.008 (.010)
<b>Tax revenue</b>	0.388*** (.060)	0.392*** (.068)	0.283*** (.039)	0.282*** (.043)
<b>GDP per capita</b>	-0.189*** (.047)	-0.210*** (.049)	-0.136*** (.028)	-0.143*** (.028)
<b>Year</b>	0.160*** (.026)	0.157*** (.028)	0.070** (.023)	0.044** (.019)
<b>Public debt</b>			0.027*** (.003)	0.026*** (.003)
<b>Fiscal decentralization</b>			0.063** (.021)	0.081*** (.022)
<b>Growth</b>			-0.023 (.018)	-0.045** (.015)
<b>Trade openness</b>			-0.059*** (.011)	-0.049*** (.015)
<b>Unemployment</b>			0.283*** (.025)	0.259*** (.022)
<b>Old age</b>			0.279*** (.059)	0.320*** (.059)
<b>Urban population</b>			0.110*** (.035)	0.158*** (.020)
<b>Constant</b>	-317.0*** (53.8)	-311.8*** (57.1)	-205.1*** (31.8)	-179.6*** (30.8)

Observation	614	590	614	590
N	24	24	24	24
F-test	52.9***	45.5***	313.3***	345.8***
R-sq	40.0	38.2	68.7	68.5

**Note:** \*\*\* P<0.01, and \*\* p<0.05. Driscoll-Kraay robust standart errors in the parantheses.

Table-2 shows the estimation findings of the second hypothesis. According to the common findings of the alternative estimation models, the effect of social expenditures on trade union density is positive and statistically significant. Thus, the findings support the hypothesis (2) on the policy-feedback effect. Given the magnitude of the coefficients, the effect of social expenditures on the rate of unionization is very high. According to the estimation findings, additionally, the trade union density is positively affected particularly by tax revenue, unemployment rate, and population ageing, while it is negatively and strongly affected by period effect and economic growth rate.

**Table 2. The Impact of Social Expenditures on Union Density**

	(1)	(2)	(3)	(4)
<b>Social expenditures</b>	0.219** (.075)		0.245** (.117)	
<b>Social expenditures<sub>(t-1)</sub></b>		0.255*** (.060)		0.146** (.055)
<b>Left party</b>	-0.282 (.204)	-0.446** (.142)	-0.130 (.192)	-0.293** (.117)
<b>Voter turnout</b>	0.077 (.047)	0.059 (.046)	0.028 (.035)	0.012 (.031)
<b>Tax revenue</b>	0.361*** (.095)	0.345*** (.099)	0.460*** (.085)	0.434*** (.084)
<b>GDP per capita</b>	-0.139* (.077)	-0.168** (.068)	-0.109 (.078)	-0.039 (.062)
<b>Year</b>	-0.526*** (.016)	-0.537*** (.017)	-0.458*** (.038)	-0.485*** (.033)
<b>Public debt</b>			0.010 (.007)	0.002 (.006)
<b>Fiscal decentralization</b>			0.428*** (.087)	0.404*** (.089)
<b>Growth</b>			-0.230*** (.031)	-0.234*** (.035)
<b>Trade openness</b>			-0.026 (.019)	-0.027 (.022)
<b>Unemployment</b>			0.124** (.055)	0.101* (.060)
<b>Old age</b>			0.128* (.074)	0.162* (.080)
<b>Urban population</b>			0.365*** (.080)	0.403*** (.065)
<b>Constant</b>	1064.0*** (35.3)	1088.0*** (37.8)	769.4*** (36.7)	797.7*** (33.9)
Observation	614	590	614	590
N	24	24	24	24
F-test	425.2***	414.0***	899.7***	664.0***
R-sq	54.5	55.2	61.8	62.7

**Note:** \*\*\* P<0.01, \*\* p<0.05, and \* p<0.10. Driscoll-Kraay robust standart errors in the parantheses

## 4. Conclusion

This study used the data of 24 OECD countries from 1990 to 2015 to empirically analyze the reciprocal relationship between unionization and social expenditures and made estimates using the panel fixed effects model with Driscoll-Kraay robust standard errors. The research results indicated that unionization has a weak but positive effect on social expenditures in

the period concerned and social expenditures has a strong policy-feedback effect which, in turn, increases unionization. These results run in parallel with those of Hooghe and Oser (2016). Additionally, the research results also confirm that trade unions had a say in the policy-making process in the OECD countries in the post-1990 period. Although the results reveal the reciprocal interaction between unionization and social expenditures, they do not provide information as to whether this interaction is valid in different welfare regimes. The research results also do not explain the mechanisms by which the policy-feedback effect emerges. Thus, further studies can expand the scope of research considering these limitations.

**Keywords:** Trade Union Density, Social Expenditures, Policy Feedback Effect, Welfare Capitalism

**JEL Codes:** H50, I38, J51

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# The Effects of Social Public Expenditures on the Happiness

Müzeyyen Özlem Çetin<sup>1</sup>

## 1. Introduction

The researches on behavioral economics have recently increased. The evaluations about the relationship between welfare and happiness levels have gained importance. Different factors are effective to be defined the happiness level of a country. This paper aims to evaluate the relationship between the happiness levels of countries and social public expenditures. Happiness ranking, which is in the World Happiness Report 2017, is used in this study. OECD (Organisation for Economic Co-operation and Development) data of selected OECD countries are used in this study. These data are about GDP (Gross Domestic Product) per capita and social public expenditures.

While there is no definite consensus to determine the social public expenditures, the Erdoğan's criterions have been taken into account consideration in this study. According to this, externalities, necessities in terms of social justice and social inclusion, effect on social life quality and daily social life, huge of effected area and level of this effect, effect on welfare of the society and development, can be used for definition to the social public expenditures (Erdoğan, 2013: 66, 70).

Education, health and social protection expenditures (pensions, unemployment insurance, etc.), are evaluated as social public expenditures in this study because of the criteria, which are explained above, and because of their weight in the general government expenditures<sup>2</sup> in the OECD countries.

## 2. World Happiness Report and Key Variables of the Happiness

World Happiness Report, which is supported by United Nation (UN), has been published since 2012. The World Happiness Report 2017 was prepared with more than 150 countries and approximately 3.000 participants from each country (Helliwell, Layard & Sachs, 2017: 3). The data of Gallup World Poll (GWP) were used in this report (Helliwell, Huang & Wang, 2017: 11).

Top ten countries in the report are the same as the previous report. There have been some changes amongst themselves. The six key variables were used to measure the level of happiness. The six key variables are below (Helliwell, Layard & Sachs, 2017: 3):

1. GDP per capita,
2. Healthy years of life expectancy,
3. Social support (as measured by having someone to count on in times of trouble),
4. Trust (as measured by a perceived absence of corruption in government and business),

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<sup>2</sup> To see the share of public expenditures in the government budget in the OECD countries, please look at (OECD, 2017: 77).

5. Perceived freedom to make life decisions,
6. Generosity (as measured by recent donations).

### **3. Happiness Ranking and Social Public Expenditures**

According to Amartya Sen, the most important elements to increase the welfare do not depend on income. Access to social opportunities and public services, economic and political liberty, and transparency are more important (Gökdemir & Öztürk, 2018: 212).

According to Sen, development mainly should provide possibility to the people to realize to their capacities. The average income may increase in a country, but this situation may not provide to access to education and health services, which provide to realize a person capacity (Eren & Aşıcı, 2018: 255).

For example, income has increased in USA since middle of the 20th century, but increase of happiness has not accompanied it. There are similar findings in Japan, the United Kingdom and some European countries (Layard, 2006: 24, 25).

The researches show that, happiness is much more in the countries where equality and freedom at high level (Fissi, 2014: 476).

Relationship between social public expenditure and life satisfaction has been researched in this study. But firstly, it is necessary to explain the content of the social public expenditures.

There is no definite consensus to determine the social public expenditures. The social expenditures database SOCX (Social Expenditure Database), which is used by OECD, contains expenditures about old age, unemployment, illness, disability (Erdoğan, 2013: 66, 75).

According to Erdoğan, education expenditures, which have a critical importance to increase the quality of social life, should not leave outside the definition of social expenditures (Erdoğan, 2013: 75).

Education, health and social protection expenditures are preferred as social public expenditures in this study. Because, they have more social quality and they have an important size in the general government expenditures of OECD countries.

**Table 1. Relationship Between Happiness and GDP Per Capita, Social Public Expenditures in OECD Countries**

<b>Countries</b>	<b>World Happiness Report 2017/Ranking</b>	<b>World Happiness Report 2017/Score</b>	<b>GDP Per Capita/2016 (Current Prices and Current PPPs) (USD)</b>	<b>Structure of General Government Expenditures by Function, Education/GDP 2015 (%)</b>	<b>Structure of General Government Expenditures by Function, Health/GDP 2015 (%)</b>	<b>Structure of General Government Expenditures by Function, Social Protection/GDP 2015 (%)</b>
Norway	1	7,537	58.792	5,46	8,38	19,43
Denmark	2	7,522	49.021	7,04	8,56	23,58
Iceland	3	7,504	50.110	7,45	7,45	9,47
Switzerland	4	7,494	63.889*	5,84	2,21	13,51
Finland	5	7,469	43.378	6,25	7,16	25,59
Austria	13	7,006	50.503	4,96	7,99	21,65
United States	14	6,993	57.591	6,12	9,12	7,84
Ireland	15	6,977	72.485	3,66	5,7	9,63
Germany	16	6,951	48.943	4,2	7,16	18,95
Belgium	17	6,891	46.607	6,42	7,67	20,2
Luxembourg	18	6,863	102.019	5,1	4,47	18,45
United Kingdom	19	6,714	42.622	5,12	7,62	16,43
Japan	51	5,92	42.293	3,44	7,68	16,08
<b>OECD Total</b>			<b>42.161*</b>	<b>5,24</b>	<b>7,79</b>	<b>13,58</b>

\* Estimated value

**Sources:** Helliwell, Huang & Wang, 2017: 20-22.

Dataset: National Accounts at a Glance, (n.d.), Dataset: Government at a Glance - 2017 edition, (n.d.)

This table has been created by us using the data in the above sources.

High-income OECD countries according to GDP per capita (2016); top five countries in the World Happiness Report 2017; and social public expenditures (education, health, social protection)/GDP ratios (2015) of these countries are shown in Table 1.

The top five countries in the World Happiness Report 2017 are Norway, Denmark, Iceland, Switzerland and Finland respectively. The average score of these countries is approximately 7,5 (Helliwell, Huang & Wang, 2017: 23).

In Table 1, these countries have been compared with other some countries which have the GDP per capita ratios higher than average of OECD (they are not in the top ten in the happiness ranking). It is seen that, social public expenditures (education, health and social protection) /GDP ratios are generally higher in the top five countries in the happiness ranking. For example, education expenditures/GDP ratio is over 7% in Denmark (second row), and Iceland (third row). Health expenditures/GDP ratio is over 8% in Norway (first row) and in Denmark (second row). This ratio is 9,12% in USA (fourteenth row). This is higher than Norway and Denmark. But social protection expenditures/GDP ratio is 7,84% in USA. This is under the average of OECD. Social protection expenditures/GDP ratio is 25,59% in Finland (fifth row) and 23,58% in Denmark (second row).

Health expenditures/GDP ratio is 2,2% in Switzerland (fourth row). This is under the average of OECD.

This is due to the fact that the health risks in Switzerland are covered by the private system (OECD, 2017: 76).

#### 4. Conclusion

According to World Happiness Report 2017, there is a positive correlation between happiness level and income level. It is seen that, the countries, which have high income levels, in the high rankings in the World Happiness Report 2017. However, the income level is not the only factor that affects the happiness level. Happiness ranking is not exactly coherent with the income level. It is seen that, some countries, which have high income level, stay outside the top ten. The other factors such as income equality, use of social opportunities, freedom, trust, honesty, transparency, to access the public services also affect the happiness level.

In this study, the contribution of social public expenditures (education, health and social protection) to the happiness level is evaluated. In general, it is seen that social public expenditures/GDP ratios are above the average of OECD in the top five countries in the happiness ranking.

A lot of factors affect the happiness level. For example in Switzerland (fourth row in the happiness ranking), the social public expenditures/GDP ratios are under the average of OECD or near the average of OECD. The other factors, which affect the happiness, also should be evaluated to explain for this situation.

As a result, according to this study, we can say that social public expenditures have positive effects on the happiness level. However, it is not enough to explain the level of happiness only with the level of social public expenditures. The other factors, that affect the happiness level, should be investigated in the happiest countries too.

**Key Words:** Happiness, Social Public Expenditures, GDP per capita

**JEL Codes:** H50, H51, H52

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# Pro-Poor Tax Policy in Turkey\*

Kemal Çelik<sup>1</sup>

## 1. Introduction

Governments that seek to reduce poverty and who implement policies that ensure that individuals are at a higher level of prosperity, implement taxes which are one of the means of fiscal policies in order to have an effect on improving the assets and opportunities of the poor which therefore results in having positive outcomes in favor of the poor.

In order to find a solution to the problem of poverty, the pro-poor tax policy which is one of the effective and workable creation of new ways and methods needs to be explored in all aspects, theoretical background and examination of certain applications for the pro-poor tax policy in Turkey, which is the objective of this study. In this study, pro-poor tax policy in Turkey has been tried to be examined in all aspects by literature review and secondary data and sources.

In this context, the concept of poverty, its importance and policies in favor of the poor are explained. Then, the definition of the pro-poor tax policy and some tax tools for the reduction of poverty are mentioned. Additionally, some of the applications evaluated in the context of the pro-poor tax policy in Turkey are examined by the existing data and in terms of the framework of legal regulations. In the last part, some recommendations are made.

## 2. Concept of Poverty and Its Importance

Poverty is used to express a situation which includes the deprivation of monetary sources and sometimes non-monetary cultural opportunities (Marshall, 1998: 683). The reduction of poverty to a minimum level is of great importance in many respects. Reducing hunger and poverty increases the vulnerability of individuals and firms that are vulnerable to global crises and minimizes the likelihood of being adversely affected by crises. Reducing hunger and poverty also provides social peace, strengthens resocialization and maximizes social benefit by effecting economic growth positively and raises social welfare to the highest level.

## 3. Policies for the Pro-Poor

Policies for the pro-poor are policies aimed at reducing the number of the poor and the severity of poverty, or aiming at improving the situation of the poor, taking into account the multidimensional nature of poverty. These policies should take into account the material deprivation, physical weakness, psychological insufficiency and lack of participation and weakness (Misturelli & Heffernan, 2010: 38). In other words, policies for the pro-poor (social assistance, social insurance, social services, services aimed at providing social equality, aid for human development etc.) increase the assets and possibilities of the poor (Curran &

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\* In this study "Pro-Poor Fiscal Policy: An Review in Turkey Related To The Period After 2002" (Kütahya, DPU, SSI, 2017), it is derived from unpublished PhD thesis.

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Renzio, 2006). Policies like this either directly target the poor or focus on reducing poverty in general.

#### 4. Tax Policy for the Pro-Poor

The tax policy for the poor has the potential to realize the taxpayer's financial and non-financial objectives in a way that improves the situation of the poor. This policy should first enable the tax revenue to be generated to meet the income need for the financing of goods and services that are produced by the state and are most used by the poor. Second, the pro-poor tax policy should be fair and effective while providing the financial resources needed to achieve non-financial objectives. The very first means to reduce the poverty by using the tax policy is that the tax system should be progressive. Other important means are the implementations like minimum livelihood reduction, negative income tax, and so on. Countries that are capable of collecting enough tax on the whole of the population, on the one hand, can balance the distribution of income by taking less tax on the poor and more on the rich with progressive taxation, while on the other hand they can use most of the higher income to reduce poverty through transfer expenditures (Council of Europe, 2013: 134-135).

#### 5. Application of the Pro-Poor Tax Policy in Turkey

Economic growth, economic stability, efficiency in resource allocation and fair distribution of income, which are generally the main objectives of the fiscal policy in general and of the tax policy in particular, are also discussed in the World Bank's many reports on fighting poverty (Aydın & Turgay, 2011: 254). For this reason, a tax policy for the pro-poor in fighting poverty has a very effective and decisive role.

Before touching on some practices that can be assessed in the context of pro-poor tax policy, it is important to examine the basic indicators of tax revenues in terms of determining how much the tax system is not in favor of the poor. Between 2000 and 2016, the ratio of total public revenues to GDP, budget revenues to GDP, budget revenues, indirect and direct taxes to GDP, budget revenues, total tax revenues and average tax wedge are shown in Table 1 below.

**Table 1. Key Indicators Related to Tax Revenues and Average Tax Wedge , (2000–2016)**

Years	TR/ GDP (%)	TR/ BR (%)	Direct Tax			Indirect Tax			Average Tax Wedge (%) $\psi$			
			GDP (%)	BR (%)	TR (%)	GDP (%)	BR (%)	TR (%)	Turkey		OECD	
									Single	Married+2	Single	Married+2
2000	17,7	77,4	6,0	26,0	33,6	10,5	45,6	59,0	40,4	40,4	37,0	27,9
2003	18,1	82,1	6,2	27,8	33,0	11,7	56,3	67,0	42,2	42,2	36,4	27,5
2005	18,4	78,3	6,0	25,6	32,7	12,4	52,6	67,2	42,8	42,8	36,2	27,0
2007	18,1	80,3	6,1	27,2	33,9	12,0	53,0	66,0	42,2	42,2	36,2	26,5
2009	18,1	80,0	6,4	28,4	35,5	11,6	51,4	64,2	36,7	35,2	35,2	25,1
2011	19,6	85,5	6,3	27,6	32,3	13,4	57,8	67,6	37,0	35,5	35,8	26,1
2013	20,8	83,7	6,4	25,8	30,8	14,4	57,8	69,2	37,4	35,8	36,2	26,8
2015	20,9	84,3	6,6	26,5	31,5	14,3	57,7	68,5	38,2	36,7	36,0	26,6
2016	20,8	82,7	6,8	27,0	32,8	14,0	55,6	67,3	38,1	36,4	36,0	26,6

Symbol: **TR**: Total Tax Revenues, **BR**: Central Government Budget Revenues, Notes: (\*) Total tax revenues, are general budget incomes which are in central government budget revenues. (\*\*) In Turkish tax system, direct taxes are composed of taxes which are collected from revenues and earnings, and from ownership. Indirect taxes are composed of taxes which are collected indirect taxes; goods and service tax, taxes on international trade and transactions, stamp duty and fees. (ψ) The single pillars in the average tax wedge; the only one with no children, the married + 2, the parents, the single salary and the two children.

Source: <http://stats.oecd.org/>; [www.muhasabat.gov.tr](http://www.muhasabat.gov.tr); [www.bumko.gov.tr](http://www.bumko.gov.tr) (05.03.2018) and T. C. Ministry of Development, Economic and Social Indicators, 2015

### 5.1. Application of Progressive Tax

While there is not much regulation in the Turkish tax system that can be assessed in the context of the tax policy for the pro-poor (for the group of poors who works and has low income or for minimum wage earners), the most important implementation is the progressive structure of the tax policy.

### 5.2. Cost-of-living Allowance

Another implementation that can be assessed in the context of the tax policy for the pro-poor is the cost-of-living allowance. The cost-of-living allowance is the tax exclusion of income, which in general will provide the least amount of livelihood for the individual. In terms of tax theory, cost-of-living allowance in Turkey covers only wage earners and expresses the separation theorem which represents low taxation of labor income compared to capital income (Kaplan, 2012: 381).

### 5.3. Tax Arrangements Targeting Low Income Groups under the Income Tax Law

Some of the deductions, exemptions and exemption implementations targeting low income groups as well as the direct income of the poor, and the Income Tax Law No. 193, which has an important place in the Turkish Tax System, include a number of tax facilities that can be evaluated within the scope of the tax policy for the pro-poor.

## 6. Conclusions and Recommendations

The structure of the tax system in Turkey in the last 15 years, has showed a successful performance in terms of fiscal purpose, which is the primary objective (fiscal), but it is hard to say that it showed a successful performance especially for the pro-poor in terms of the non-financial purpose, which is the secondary objective (extra-fiscal). In order for a pro-poor tax system to be successful, it is necessary to take into account the financial purposes as well as the non-financial purposes which target the poor.

For a pro-poor tax policy, the Turkish Tax System must first be urgently reviewed and a number of new regulations must be enacted, including both the working poor (the minimum wage) and the unemployed poor, who are called the extreme poor. In addition, the fact that cost-of-living allowance which is now in practice covers only the wage earners which is one of the seven income factors in Revenue Tax Law, and that the cost-of-allowance applies to all the wage earners (minimum wage and high wage) at the same rate, results that low income earner groups take advantage of tax system very little. In order to overcome this deficiency, cost-of-living allowance which does not serve only to separation theorem in terms of tax theory should include the other low income groups.



Applications such as negative income tax practice, labor income tax reduction, basic income (citizenship-citizenship-minimum income security) applications are effective practices that can be evaluated within the scope of the tax policy for the pro-poor. All these practices, which are also proposed under the tax policy for the pro-poor, are policies which decrease the total labor costs and informality, increase the employment, improve the situation of the existing poor and prevent the non-poor to fall below the poverty line since these policies contribute the employment to increase by economic growth.

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## **A Comparative Analysis of Child Poverty in Turkey with EU Countries and Evaluation of Public Policies**

**Hakkı Hakan Yılmaz<sup>1</sup>**

**Nazmiye Tekdemir<sup>2</sup>**

### **1. Introduction**

Poverty; in terms of the concept of capability, which has been given to the welfare economics literature by Amartya Sen in 1987 with the most general definition of the term (Yılmaz, et al., 2011, p. 7). Poverty is defined in this way; from country to country, as well as between regions in a country and even within households, which is the most basic unit of society (Todaro, 2000).

Children are at the head of the disadvantaged segment in society. Poverty at this segment; difficulty in access to services such as malnutrition, dressing, accommodation, health and education, high rates of child mortality, low life expectancy and hopelessness (Yılmaz, et al., 2011). Children with disadvantaged positions are seen as the most important segment to be raised in order to raise the level of human development and become a social state (Collins, Amodeo, & Clay, 2007, p. 1487-1502).

In this study, concepts and debates are given primarily on how poverty is defined, who the child is and how child poverty is measured. The determinants of child poverty are explained in the scope of the study by looking at literature and applied studies. In Turkey, dimensions and determinants of child poverty will be discussed. A comparative analysis of primary and secondary distributions will be made with OECD countries and the effectiveness of public policies implemented in the fight against child poverty.

### **2. Review**

Child poverty rate in Turkey, like in many other countries, is higher than overall poverty rate. There are several factors behind this including its relatively young population, inability of children to meet their own needs, and the large household size in poor households. In spite of this background, discussions on child poverty as a separate area in the relevant literature are relatively recent.

At the global level, when we look at studies on child poverty; Amartya Sen is one of the names that confronted with the studies on the measurement of poverty first. You have developed the Index, which takes into account the disparities between the poor. One of the important contributions in this regard is Foster, Greer, Thorbecke (FGT) index. The FGT index is a partition sensitive index that can be decomposed into total poverty subgroups. Ravallion

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(The Economics of Poverty) on poverty and M. Ravallion and M. Huppi (Measuring Changes in Poverty: A Methodological Case Study on Indonesia). For example, in a study conducted by Arieih in 2010 using panel data analysis, it has been found that the scrolling of services is more effective in combating child poverty. In a study by Collins, M. E., Amodeo, M., & Clay in August 2007, child welfare education policies and projects aimed at reducing child poverty in the United States were introduced. A 2006 study by J. Jimenez also addressed the poverty of African-American children and non-marital children in the United States and discussed how the least can be achieved with policies that can be applied / implemented at the public scale.

### 3. Data and Methodology

In this study, country results will be drawn from the Eurostat and OECD datasets. For Turkey, Turkstat general poverty and income distribution Income and Living Conditions to measure poverty before transfers alongside data will be particularly benefited from micro data sets.

Turkey poverty data with EU countries in the study are discussed in comparison to the 2005-2016 period. Later, the poverty determinants of the poverty-stricken households were looked at from the perspective of the child through the TURKSTAT microdata sets.

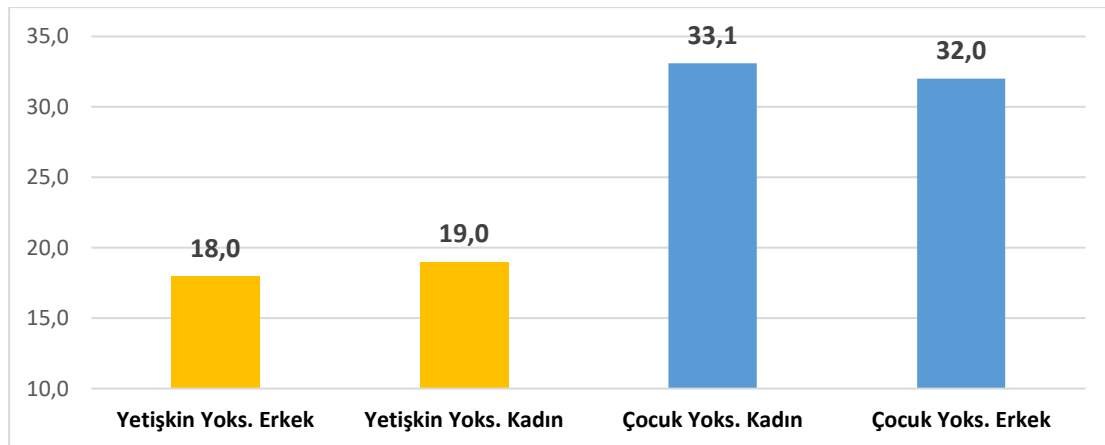
In the scope of the study, an equivalent individual income, which takes into account the number of households and the age distribution, is firstly calculated on the basis of household income, and then 60% of the median of equivalent income is considered as poverty line. Calculation of income was carried out within the framework of the following formula (EUROSTAT scale);

$$Y_i = \frac{R_i}{(1 + 0,5 * N_y + 0,3 * N_c)}$$

### 4. Findings

The difference between child poverty and adult poverty is strikingly higher in Turkey. Poverty is more common among children. This corresponds to the highest level of differentiation within the EU countries. This situation shows us the impact of policies to reduce child poverty in the design of public policies in Turkey is quite limited.

**Graph 1: Poverty Rates (60% of equivalised household disposable income, 2014)**

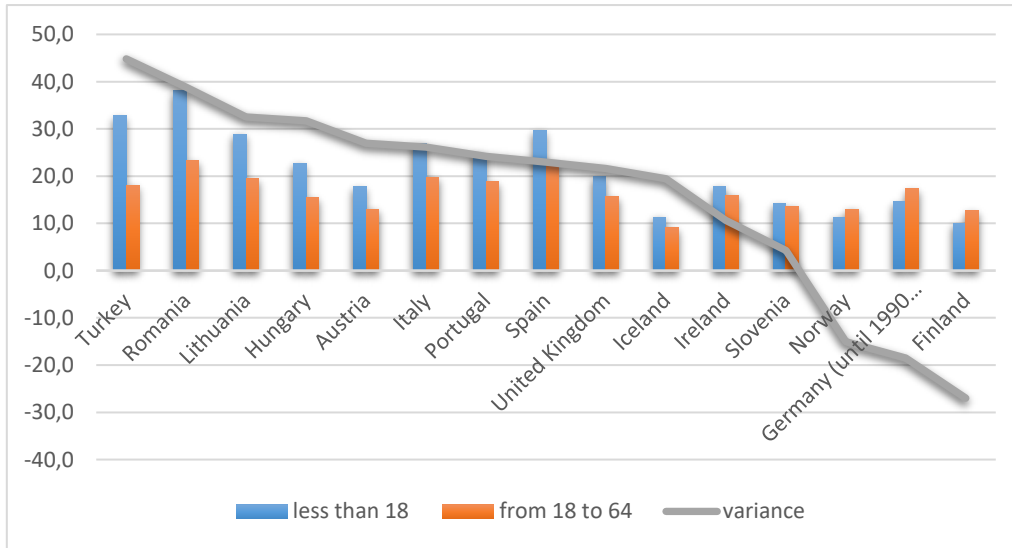


Source: Yılmaz, 2018, TurkStat, 2014 Income and Living Conditions

In our country, the share of social protection expenditures directly to mother and child (Yilmaz, 2017 and TURKSTAT social protection data) is very low, about 2%. This rate in average is 9% in EU countries with an older population. Turkey has been implementing a policy of generous social protection expenditure on the elderly.

When we examine the graph showing the difference between adult and child poverty and the social transfers after 2015, only in Norway, Germany and Finland we see that child poverty is less than adult poverty. If we look at the countries where poverty is high compared to the adult child poverty that we see the most points opened in Turkey.

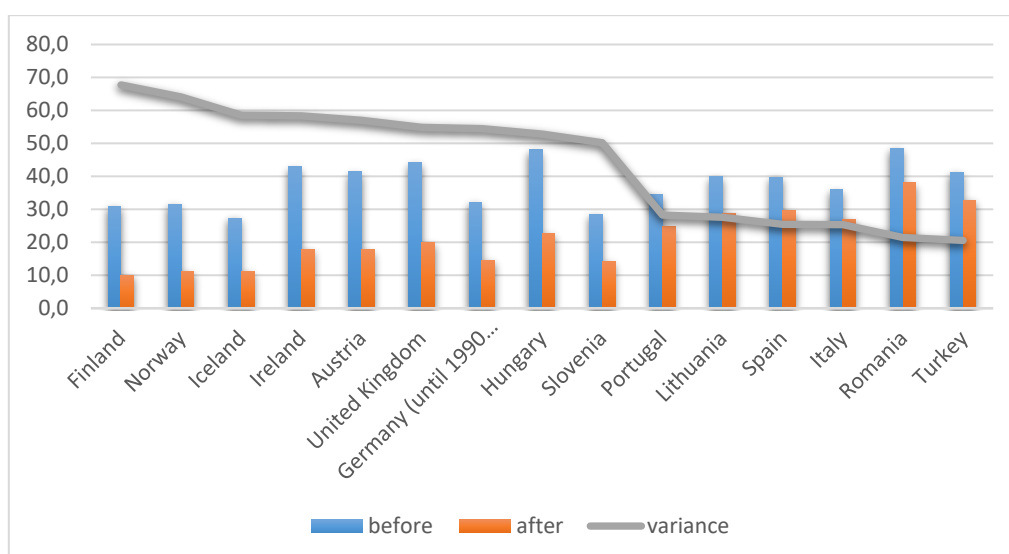
**Graph 2: Child Poverty, Adult Poverty and Differences After Social Transfers in Selected Countries (60% of equivalised household disposable income, 2015)**



Source: EUROSTAT, 2018

In 2015, before the social transfers and then also contains data of graphic child poverty. Although Romania is at most two cases, countries where child poverty before and after the transfer of the percentage change is at least as Turkey.

**Graph 3: Child Poverty Before and After Social Transfers (60% of equivalised household disposable income, 2015)**



Source: EUROSTAT, 2018

We also see that poverty rates are higher in single-parent households with dependent children versus double-counted households in both years. As the number of children increases, poverty also increases. The findings from country comparison show why the design of public social programs for poor dwellers is important.

**Table 2: Poor Number and Poverty Rate by Household Type (60% of equivalised household disposable income, 2015, 2016)**

Household type	Poor Number (thousand people)		Poverty Ratio (%)	
	2015	2016	2015	2016
Household dependent child	14960	14699	26,7	26,3
Single adult minimum 1 dependent child	314	310	29,3	28,3
2 adults 1 dependent child	703	678	8,6	8,2
2 adults, 2 dependent children	1792	1805	15,1	15,0
2 adults 3 and more dependent children	5185	5228	45,9	45,7
Other household with dependent child	6967	6678	29,5	28,9

Source: TURKSTAT, Income and Living Conditions Survey, 2016

When we look at the TURKSTAT SILC microdata, the share of social protection expenditures in household income is important in poor households, while the effect of adjusting income distribution is more limited because the income level of poor households is low. In particular, the fact that non-contributory social transfers (excluding pensions) are

predominantly elderly and handicapped, reduces the impact of social protection expenditures on child poverty combat.

## 5. Conclusion

Turkey in the EU region is among the first three countries where child poverty is highest. But the problem is that public social transfers, which are important in terms of public policies, have limited effect in reducing child poverty. This finding has recently made international practices such as the United Kingdom, which makes policy towards children a priority within budget programs and reduces child poverty significantly, making it important for international experience.

Also in the findings of micro data sets in Turkey, to be reviewed in a comprehensive manner the public should be given to non-contributory social transfer programs and social protection programs for children. Particularly income support programs for education is decisive condition for Turkey in terms of access to education for children. In addition, according to the findings of the studies, it has been revealed that the empowerment of women within the family is also very important for the prevention of child poverty.

**Key Words:** Child Poverty, Public Social Programs, Social Protection Expenditures

**JEL Code:** I32, H11, H53

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## Application Areas of Behavioral Public Finance and Recent Developments

N. Tolga Saruç<sup>1</sup>

Çiğdem Börke Tunalı<sup>2</sup>

Işıl Ayas<sup>3</sup>

### 1. Introduction

In order to analyze economic incidents behavioral economics used widely in recent years. As a result of Daniel Kahneman, who was a psychologist, sharing the Nobel Economy Award with Veron Smith in 2002, the study and analyses have been increased significantly and now there is large body of literature on behavioral economics. The area of subject will advance even more, since Richard Thaler who was written “Nudge” and “Misbehaving: The Making of Behavioral Economics” books, has been awarded by the Nobel Economy Award in 2017, because of his contributions to behavioral economics. Thaler indicated, in a presidential address to the American Economic Association in January 2016, that behavioral economics would be so successful, in the end it would disappear, he added that “I think it is time to stop thinking about behavioral economics as some kind of revaluation, all economics will be as behavioral as the topic requires” (The New York Times, 9 October, 2017). In this statement Thaler argues that eventually behavioral economics would replace the neo-classical economics.

It is not just important for the science of economy but also public finance when economic units make irrational decisions and systematical mistakes. Nevertheless, a simple literature reviews showed that the studies and interest are rather less in the subject of public finance. Science of public finance can benefit from the theories of behavioral economics in order to model fiscal policies more precisely. It would be correct term to call it “behavioral public finance” when areas of public finance are explained with the tools of behavioral economics. Thus, a book published by McCaffery and Slemrod (2016) titled as “Behavioral Public Finance”. There are also similarly named books and articles. Public finance subjects are explained by employing behavioral economics tools in Turkish literature. As examples studies by Seçilmiş and Didinmez (2016) “The Evaluation of Tax Reforms from the Perspective of Behavioral Economics: the Turkish Case” and Kitapçı (2017) “Towards Rationality to Irrationality: Behavioral Economics Approach and Cognitive Biases” can be given.

In the first section of this study development methodology and tools of behavioral economics is evaluated. In the second part application of behavioral economics into the field of public finance especially in the subject of tax compliance, health economics, retirement and insurance, public goods, etc. are discussed and evaluated. In conclusion findings of behavioral public finance and summarized and new areas for research is debated.

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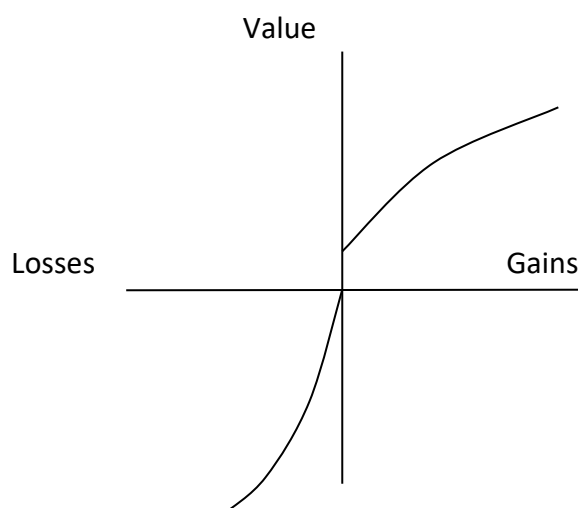


## 2. Prospect Theory and Bounded Rationality

Endowment effect, loss avoidance, money illusion, framing effect are explained in detail in this section.

The criticisms of the expected model lead to development of an alternative model: prospect theory model. The theory is developed by Kahneman and Tversky (1979) and it is reviewed and discussed by several authors. Because of this study as mentioned a psychologist Kahneman, awarded by Nobel Economic Award. Prospect theory explores how decisions are made and it is developed to overcome some problems associated with expected standard utility theory. Individuals are not behaving as rational all the time and the theory analyze how they make decisions in real life. According to this people go thorough many stages before giving a decision. In expected theory people decide considering their final wealth, however in prospect theory people decide according to a reference point whether a new situation is a gain or loss. In general reference point is taken as the wealth of peoples at the starting point (Kahneman, 2011).

Graph 1. Prospect Theory a hypothetical value function



These characteristics of value function indicate that when sure gains are involved, in general people avoid risks, while they take risks in order to avoid certain losses. Losses perceived more than gains, so people avoid risk for high rate gains but take risks in order to prevent high probability losses. Therefore, it is very important how the individuals perceive the change and frame it.

## 3. Applications and Evaluations of Some Fields of Behavioral Public Finance

### 3.1. Tax Compliance

Behavioral public finance has important effect on tax compliance literature. Studies that aimed to test prospect theory found that it is important how taxpayers frame and perceive taxes. For example, an analysis of focus-group discussion indicates that taxes which have to be paid with tax returns at the end of the year, as well as tax amounts owed in general, especially those due on income from secondary sources, have greater utility than taxes that are withheld, especially from the primary salary. (Ekstrand, 1980)

However, according to neo-classical economic theory, it should not make any difference.

### **3.2. Health Economics**

Although rational choice theory is successful in many aspects, it is not adequate to explain amount of time and money spent by people to lose weight (Downs and Loewenstein, 2011). Authors also mentioned that neo-classical theory struggle to explain the subject of emotional eating, the effect of others eating behaviors on someone and the effect of ease of availability of foods. Behavioral economics assumes that individuals cannot be rational all the time and accept that they can make some systematic mistakes and consider obesity in this manner, it assumes that people may have some difficulty from time to time in self-control in the subject matters of foods.

It is possible to tackle obesity problem with the means what Thaler and Sunstein called nudge in their book. When the choices are difficult economic units can be nudged to correct behavior. In this method characteristics of procrastination and sluggishness of humans are employed. In practice people procrastinate important choices (taking their medicines and organ donation) and therefore cannot take efficient decisions. Even in the case of default option is not being his best interest, he may not show the slightest effort to change it.

### **3.3. Retirement and Insurance**

Many factors that effecting people's retirement decisions and leading them to make systematic mistakes can be corrected by help of tools from behavioral public finance so both individuals and societies welfare could be increased. Similarly, private pension system can be promoted by employing public finance models. In this section both national and international studies that have been carried on these subjects were discussed.

### **3.4. Public Goods**

Many experimental studies indicated that public good financing has been effected by many other factors showed by neo-classic theory. Behavioral public finance seems to be successful especially in the subject of provision of public goods.

## **4. Conclusions**

Using tools of behavioral economics rather than neo-classical ones in some field of public finance give more fruitful results which are closer the real-life behaviors. Behavioral economics, prospect theory and bounded rationality have certain success to analyze public economics and fiscal incidents. The field of these studies is behavioral public finance and it is believed to be useful to use this term in Turkish literature. Since there is behavioral finance, behavioral economics there should be a term such as behavioral public finance, it is more appropriate to use this term in this kind of studies. Behavioral public finance do not indicate that people are always irrational and make mistakes, but it categories the fields of systematic mistakes and suggest apporiate public policies to correct them. Especially in the subject of tax compliance, health economics retirement and private pension and public goods behavioral public finance show important findings and help to develop effective public policies.

**Key Words:** Behavioral Public Finance, Public Policies, Prospect Theory

**JEL Code:** G38, G41, H26

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## **Tax Justice - Fair Tax System**

**Yusuf Karakoç<sup>1</sup>**

### **Abstract**

Men have to live together as a society by their nature. They cannot satisfy all their needs as individuals so that they had to live in a society. And the necessity of living as a society is the reason and the cause of the state. Therefore the state is expected to fulfill the communal needs which of those cannot be satisfied by individuals themselves or as small groups. In this respect, the state has to produce public goods and/or services in order to fulfill the common needs of people. This obligation of the state requires to generate income since state needs to spend money for all these services. Taxes are the most common and fundamental source for the expenses that correspond to public goods/services.

The public expenditures are being distributed among the citizens with different criteria and measures, whenever and wherever the state exists. This is one of the most common debates that have always been discussed whether this distribution is even and fair. In this context, each and every tax is subject to the questioning for tax justice. Discussions are not being made around the whole but rather on the fragments or parts. However, focusing on the parts or fragments makes us blind to the whole. Therefore this paper is an attempt to see and discuss the whole not the parts; the unseen not the visible.

For the ease of calculation the subject is explained with average income and ratios and the taxation of persons only from three sources. The aim is qualify and evaluate the system as a whole and by this to help to improve the regulations-enforcement-judgment, by creating awareness on this subject.

### **1. Introduction**

Tax justice or unjust taxes are being discussed since the day the state existed. In this context, it is claimed that indirect taxes, in particular, the Value Added Tax (which is a type of turnover taxes) is unfair since by disregarding rich-poor distinction these taxes are collected equally from all people who consume the same goods or takes same service. However, by a closer look you can see that this approach does not reflect the reality. It is not possible to qualify a tax system as fair or unfair just by taking a single type of tax since it is not the only tax collected by the state. Make a fair and unfair character of a tax or tax system based on the application of a single tax. There may be some rightful aspects of this perception. However, when the tax and similar financial obligations that persons are obliged to pay are considered as a whole, one tax may compensate for the unfair side-result-effect of the other one. Perhaps considering the whole system, it is clear that this first impression is ultimately not right. In this respect, it is more appropriate to consider that the results of the tax system

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as a whole are fair or non-fair. As a matter of fact, it is not appropriate to judge whole process by taking single tax

In this paper, the question of whether "the tax justice" or "the tax system justice" is tried to be answered. In this context, it is argued that it is necessary and correct to mention the fairness of the tax system and to discuss the fairness of the tax system, not the tax.

## **2. The Basis/ Nature of the Tax System**

The tax system refers to the structure of the all taxes that exist in a country during a certain period. Indeed, the tax system is not a distinct and unconnected system. First of all, it is adhered and dependent to the state system. The form and nature of the state such as liberal-social-capitalist-socialist and so on determines and shapes the tax system. In addition, the parliamentary or presidential system also has a decisive influence on the formation of the tax system. Furthermore, the socio-cultural structure, the level of Economic Development, the amount of national income per capita, the balance of income and wealth distribution, and so on are the determinants of the tax system. After all this has been taken into account it must be decided that taxes will be taken:

- for what,
- from what,
- how much,
- when,
- from who
- how

Without taking all these questions into account, only resources that easy to reach, efficient but have lots of negative effects are being taxed only by the excuse of the income need of the state for instance, the concentration of tax on expenditures is an indicator of this. It is preferred to tax from different sources since it is not proper to obtain required income only by taxing one source.

The source of the tax is financial power or purchasing capacity. Taxation is made when the financial power/purchase capacity is achieved-used or when the purchase capacity is retained as stock value.

To obtain the capacity acquisition means to obtain the acquisition of revenue. The income stage is followed by income and corporate tax. Since it is not possible to catch the income stage fully or almost fully, the income obtained from taxation in the income stage is less than half of the income required.

Lack of tax revenue at the income stage, is sought to compensate with expenditure taxes. In other words, the taxation of a phase with a wide and efficient is pursued in obtaining the remaining income. Therefore, the use of purchasing capacity or spending is taxed. It is much easier to tax expenditures than income. Taxes on expenditures are transferred to the treasury in less time. Therefore, a significant portion of the needed income is derived from the taxes that is collected from the expenditures.

The taxation of wealth, which constitutes the value of the purchase capacity as a stock value, has a very limited income effect. Because, tax rates are low at the stage of wealth but exceptions and exemptions are widespread and high. Therefore, income efficiency of wealth taxes is generally low. There is only a partial height in motor vehicles tax although it is not fair in distribution.

The tax on wealth should not be counted as the only tax on the purchase stock. It is also possible to classify the taxes taken during the procurement of the purchase stock as indirect wealth tax. As a matter of fact, the value added tax collected in the purchase of motor vehicles and the special consumption tax and the title deed fees obtained during the hand-change phase of real estate goods are also same kind as mentioned. The rates of these taxes and fees are high. It even has a deterrent effect. In fact, there should be a fair balance between income-expenditure-wealth taxes.

### 3. Provision of Justice through Taxation

Economic values-activities that are considered as indicators of financial power today are *income*, *expenditure* and *wealth*. States are making taxation based on income, expenditure and wealth. The required tax should be distributed evenly among these elements of fiscal power.

Income is the source of spending and wealth. The asset is either accumulation on hand or the portion of the income kept without spending. In fact, tax targets revenue. Spending or asset is not possible without income. Sometimes such a taxation is claimed to be repeated taxation.

It is possible to make taxation specific to the taxpayer by exemption-exception-deductions when making taxation in the income stage; that's even necessary. Therefore, these taxes are called personal taxes. However, a fair balance needs to be observed in this process.

In taxation of income, it is not possible to make all of the income earners income taxable. As a matter of fact, the amount of income and special conditions of income earner can make it necessary to not tax. In this context, tax facilities such as tradesmen exemption, disability reduction, minimum living allowance allow certain amounts of income and some persons to be excluded from the tax. In such a case, even though income has been obtained, no taxation occurs. In other words, the tax burden carried in these cases is either zero or low. In case the minimum wage is excluded from the tax, persons whose income is the minimum wage level do not pay the income tax. Persons whose income exceeds the minimum wage must also pay taxes on the remaining portion of the wage. Fairness is contradictive here. However, it should never be forgotten that every man needs a minimum income to live.

Persons who earn income as much as the minimum wage and do not pay income tax, pay tax of their spendings. As of now, the ratio of taxes on expenditures to total tax revenues is quite high which is reproachable. However, by a closer look, one can see there is not much to criticize. Because, the state taxes on expenditures i.e. indirect taxes, by two main reasons. First income productivity is high because these types of taxes are broadly based. Second, the collection of such taxes is easy and takes place in a short time. Because, the Tax Administration's addressee is a small number of taxpayers and the taxation period is applied as months, not years. It also helps to the manifestation of justice by catching tax evangers early at the income stage. However, those who are exempted from income tax or whose

income is covered by the exemption also pay taxes in the same way as high income earners. It is argued that this is unjust. However, the spender is taxed on the expenditure he does, not on the basis of his income level. Taxes on expenditures are not personal taxes. This negative result is tried to be balanced in some ways. First, by differentiated rate application. In this context, the the essential necessities (poor goods) are subject to a lower tax rate. Second, tax benefits are provided through exemption.

Wealth is the stock-economic value of the non-expendable portion of income and is a reflection/element of financial power. Throughout human history, wealth has always been directly and/or indirectly the subject of tax. In this respect, the wealth of those who are much more than the income they earn is taxed. These persons are obliged to pay income, expenditure and wealth tax.

In sum, the person who obtains the minimum wage and does not pay the income tax is only taxed on his expenses; the person who earns above the minimum wage and who spends the entire amount of income he or she earns is taxed on both the income tax and the expenditures and the person who earns above the minimum wage and does not spend a part of the income he has obtained and turns it into a servant, pays taxes both on income tax, on expenditures and on wealth.

#### **4. Evaluation**

It is possible to observe some examples of injustice among the real or legal taxpayers when individual taxes are analyzed. If only a single type of tax was being taken, it would probably be proper to determine the rates much more precisely to be fair. However, tax systems consist of a large number of large and small taxes, not a single type. Some of these can be negligible in terms of productivity or income revenue. As a matter of fact, all taxes are not intended to generate income. Sometimes taxes are imposed and taken in order to follow the movements of economic assets and to discipline them.

In fiscal law (income law) justice is an issue that should not be dealt with in terms of individual taxes. Otherwise, it is inevitable to reach false and misleading results. Tax justice refers to bear a tax burden in accordance with the state of the taxpayer. From the individuals point of view accordance with the state of the taxpayer means proportionality in today's language; when compared to others at the same time, it is used to mean balanced.

Proportionality means that the load to be carried is in a portable quantity/size. Balance is that the total load is distributed evenly between those who carry the load.

#### **5. Conclusion**

The state is to produce/offer public service. Production of the service requires spending. The state's ability to spend depends on its income. The main source of state income is taxes. In this respect, if there is a state, there is tax. Otherwise is unimaginable. If there is a tax, everyone in that country must share this burden. And sharing is up to financial power.

In the case of the tax system, it is understood that a fair distribution is provided when the whole of the tax system is taken into consideration, although there are some unfair regulations and practices in respect of individual taxes. Incomes that are out of tax during

the income phase are taxed at the expense stage. Those who convert spending surplus to wealth are taxed according to their financial strength by paying income + spending + wealth tax. It is imperative that this spontaneous distribution be achieved through proper regulation, honest application, and more uniformly.

In short, it is necessary to talk about the Justice of the tax system, not the Justice of the tax.

**Keywords:** Tax, Tax Burden, Justice, Tax Justice, Fair Tax System

**JEL Code:** K34, H26, H21

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## Tax-Veiling - Simulation - Tax Avoidance

Nurettin Bilici<sup>1</sup>

Aziz Erman Bayram<sup>2</sup>

### 1. Introduction

It is extremely difficult to distinguish between the concepts of tax-veiling, simulation and tax avoidance; yet, it is a very important to do so.

In Turkish tax law it is possible to avoid taxes by legal means. However, actions that are considered as tax-veiling or simulation are subjected to sanctions.

### 2. Tax-Veiling

Tax-veiling can be described as fraud by ways and means of private law on purpose of obtaining tax related benefits deliberately. Tax-veiling is a specific type of fraud in tax law; where a tax rule is defrauded through specifically crafted legal transactions of private law (by choosing inappropriate legal transactions). For example, in order to benefit from the exemption for gratuitous successions under the amount of 4.656TL, which is allowed in article 4/d of Inheritance and Succession Tax Code, making four consequent donations in the amount of 4.656TL is considered a tax-veiling. A “barren money – rent free house” contract (lending some money without interest as consideration for leasing a property without rent) is also a tax-veiling; because, parties aim to prevent two taxable events by mutually giving up their rental and interest incomes.

Sanction for tax-veiling is a taxation that based on deemed taxable transaction that reflect economic reality instead of inappropriate but legally valid transaction (in the sense of private law). For example, four separate donation contracts in the amount of 4.656TL each are considered as one single donation contract of 18.624TL and taxed accordingly. The “barren money - rent free house” contract is taken into consideration as two separate contracts; one loan contract and one leasing contract, which have separate tax consequences.

### 3. Simulation

In the simulation parties pretend to perform a transaction different from that in which they really are engaged; or give a false or deceptive appearance to a transaction in which they engage. Because they merely aim to create a false manifestation to defraud third parties.

For example, a father who wants to and actually does donate his apartment to his daughter may conclude a sale contract with her in order to avoid the inheritance and succession tax. As a second example, an employer may sign a labor contract with his employee on the basis

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of minimum wage in order to cause lesser income that, while they actually agree on a higher remuneration.

A simulated transaction, which does not reflect the real purpose of the parties, is null and void. According to article 3/B of the Tax Procedure Code, for tax purposes, only the really engaged transaction is taken into consideration, not the simulated one. For example, the donation contract between the father and the daughter for the apartment is subjected to inheritances and succession tax instead of the sale contract. Likewise, the actual remuneration is subjected to income tax instead of the simulated minimum wage.

If a simulation causes a loss on the amount of accrued tax or a delay in the timing of accrual; a tax penalty is applied (TPC Art. 344.) (Özel, 2005: p. 198).

#### **4. Differences between Tax-Veiling and Simulation**

Tax-veiling and simulation are two different concepts, and accordingly, are regulated separately in different articles of the Fiscal Code of Germany.

In tax-veiling the legal transaction(s) that is created by the parties reflect their actual intention; but in simulation the parties do not want to achieve actual results of the simulated transaction(s) (Tipke/Kruse, 1991: Art. 41, N. 28). For example, in the case of four consequent donations, every single of them is actually desired by the parties; in contrast in the case of simulated sale contract, the parties do not intent to create an actual sale contract at all.

In simulation, there is a really engaged transaction, which is represents the actual willing of the parties and therefore the parties intend to bear that transaction's legal consequences, but at the same time they aim to conceal it from third parties through the simulated transaction. On the contrary, in tax-veiling, there is not any collusive transaction (Leitner, 2012: 78). In the barren money – rent free house contract, not only the leasing of property but also the borrowing of money is intended by the parties.

In tax-veiling, there is a fraud of ways and means of private law. But in simulation there is not any fraud of ways and means of private law.

The sanction of tax-veiling is to levy a tax in line with the proper purpose of tax provision which is defrauded. It means that a tax must be levied by considering the economic consequences would exist if the parties had engaged in a proper legal transaction instead of the inappropriate one. The sanction of simulation is to levy a tax based on really engaged transaction by disregarding the pseudo transaction.

#### **5. The Relationship between Tax-Veiling - Simulation and Tax Avoidance**

Tax avoidance is the practice of paying least possible minimum tax amount within the legal boundaries by tax payers.

Taxpayers are not prohibited from paying a lesser amount of tax as long as they do not breach tax laws. Each tax payer, in principle, has a liberty of tax avoidance (Klein/Ratschow, 2016: Art. 42, N. 38).

### **5.1 . The Relationship between Tax Avoidance and Tax-Veiling**

Tax-veiling is fraud by ways and means of private law on purpose of obtaining tax related benefits. In tax avoidance, however, a taxpayer either does not create a taxable event at all or prefers to engage in a transaction which has least tax consequences.

### **5.2. The Relationship between Tax Avoidance and Simulation**

In tax avoidance there is purpose of tax saving; there isn't any intent to defraud against tax administration or the other third persons.

On the contrary, in simulation, the parties act in purpose of fraud to third persons (including the tax administration). In this case, they intentionally break the legal boundaries.

## **6. Conclusion**

Tax-veiling is a specific type of fraud against law in tax law. There isn't an explicit provision about tax-veiling in Turkish tax regulations.

In simulation, parties allegedly transact, but they do not intent the legal transaction to bear its proper consequences, because they merely aim to create a false manifestation to defraud third parties.

The grounds and sanctions of tax-veiling and simulation are different. These two concepts are regulated separately in different articles of the Fiscal Code of Germany. Consequently, it is incorrect to use the terms of these two concepts interchangeably.

Tax avoidance is the practice of paying least possible minimum tax amount within the legal boundaries by tax payers. In order to do so, , a taxpayer either does not create a taxable event at all or prefers to engage in a transaction which has least tax consequences. In our domestic law, in principle, it is not forbidden for tax payers to go to the least possible way of paying taxes.

Tax-veiling and simulation constitute the boundary of tax avoidance.

The main purpose of this study is making a clear distinction between non-confusing concept of tax avoidance and confusing concepts of tax-veiling and simulation. Therefore, especially relevant judicial decisions of Turkish Courts will be analyzed in detail. Also, evaluation of transactions as tax avoidance, tax-veiling or simulation in the decisions of Council d'état, will be determined. It is our belief that our hypothesis, that is, the concepts are confused in these decisions, will be confirmed. After the detection of incorrect use of the terms and concepts in judicial decisions, our study will end with suggestions that are aimed at relieving the contradiction in these terms.

**Keywords:** Tax-veiling, Simulation, Fraud Against Law, Tax Avoidance.

**JEL Code:** H20, H26

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## **Problems in the Judgment on Accounts\***

**Mine Uzun Çam<sup>1</sup>**

### **1. Introduction**

The tasks of the Court of Accounts are to audit the financial activities, decisions and transactions of public administrations, to present the results of the audit to the parliament, and to judge matters that lead to public damage from accountability and transactions for the responsible. Public damage found by Court of Accounts auditors can only be compensated on the sentence by a result of the judgment on accounts. However, the execution of writs of the Court of Accounts has been a problem for a long time. These issues have focused on the Constitutional Court and Supreme Court decisions that the Court of Account is not a court, and its decisions are not a writ. Today, the Court of Accounts is discussing the view of the concept of public damage and the writs affecting the third persons. This study aimed to present solutions for the problems of the Court of Accounts.

### **2. The Problem of the Court of Accounts not being Accepted as a Judicial Body**

The previous case-law of the Constitutional Court in the sense that the Court of Accounts is not a jurisdiction has caused disputes between the judicial organs and the Court of Accounts. The debate began with the decision of the Constitutional Court in the period of the Constitution of 1961, dated 6.3.1973 and the decision number of 1972/56 E., 1973/11 K., and continued for a short period of time. The Constitutional Court ruled that the Court of Accounts was not a jurisdiction. After a long period of time, dated 11.7.1991 and the decision number of 1990/39 E., 1991/21 K., was in the same direction, and the Constitutional Court ruled that the Court of Accounts was not a judicial body and that its members will not be judges.

The decisions of the Constitutional Court about the Court of Accounts naturally were affected our whole judicial organization. The Court of Accounts was not considered as a judicial body in cases opened to the judicial organs of the persons who were judged against the Court of Accounts; judgments are not in the qualification of the writs. As a result, public officials who had been convicted of damages for causing public damage were reinstated without considering the public deficit ruled by the Court of Accounts in the judicial proceedings. In this case, new judicial decisions were made in favor of the accounts of experts who could discuss the expertise of the field instead of public damages calculated by the Court of Accounts, a special court in the field of financial jurisdiction.

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The Constitutional Court finally changed its case-law on the fact that the Court of Accounts was not a judicial body and therefore its decisions could not be considered a court decision, with the dated 27.12.2012 and decision number of 2012/122 E., 2012/207 K.; so that the problem between judicial jurisdiction and the accounting judiciary has been ended in this direction.

### 3. Concept of Public Damage in the Judgment on Accounts

Public damage is to prevent or reduce the increase in public resources as a result of unlawfull decisions, transactions or actions arising from intent, flaws or negligence of public officials. The state has the right and the authority to recourse only then the public officer who causes public damage with personal fault. Nevertheless, judgment on accounts give a ruling to compensate the public officials for damages arising from service faults. This unlawfulnesses can only be resolved in the judgment on accounts by the trial of personal fault of public officials (Akyılmaz, 2015: 46).

*The service fault* described as imperfections in the nature of the duties of public officials (Gözler ve Kaplan, 2011: 411), is of an anonymous nature and occurs when the service is malfunctioning, late processing or no processing. The Administration is under the obligation to carry out the services with selected and trained personnel in accordance that will provide such services as required by public services. Losses arising from non-fulfillment of this obligation must be compensated by the administration under the service fault.

In the judgment on accounts, any situation in which compensation is paid due to a service fault can be considered as a public damage. However, personal fault of a public official must be sought in order to be able to talk about public damage in the course of his transactions or actions. Public damages do not occur when there is no personal fault (Sezginer, 2015: 70).

Another important issue in determining the public damage is the correct definition of the damage. The damage is falling of all asset and liability values, including claims. For this reason, there is no public damage as long as there are receivables that the administration has because of unjust enrichment (Özçelik, 2012: 17).

### 4. Third Person in the Judgment on Accounts

Those who are found to be unfairly paid on their behalf are referred to as “ahiz” (Sakınç ve Taytak, 2016: 16). Addressee of the Court of Accounts, top managers, spending authorities, realization officers and accounting officers. It is indisputable that the compensation decisions made against such persons should be accepted as final judgment before other judicial organs. However, it is unlawful to accept as a final judgment on those who can not find themselves able to defend in the court of accounts (Mutluer vd., 2015: 154). Because the definite provision means that a new case can not be filed between the same parties on the same subject and on the same grounds (Yılmaz, 2013: 1342). The definite provision can only be considered as conclusive evidence for other cases on this condition. For this reason, it is unacceptable that the public damage that is ruled in the writs of Court of Accounts is binding for the third person. Because in the Court of Accounts, third persons are not side of the case. It is criticized that the recalculation of the public damages in the judicial judiciary without taking into account the public damage determined by the Court of Accounts, which

is expert in the field of financial jurisdiction, for causes the treasurer to receive less and later than the damages. For this reason, it is frequently mentioned that the Court of Accounts' jurisdiction must be rearranged to include the third persons (Şişman, 2017: 170). In our opinion, the fact that the third persons are included as "intervening party" in the Court of Accounts should also be taken into account in the solution of the problem. According to the law of civil procedure, a judgment issued by a court not bound to another case with a different party, but only in exceptional circumstances, such as an intervening party (Akkan, 2009: 51).

## 5. Conclusion

One of the main reasons for the debate of the writs of The Court of Accounts today is the Court of Accounts reports prepared without discrimination of service fault - personal fault. Only in the presence by a personal fault must be determined as public damage in judgment on accounts. The provision of reimbursement for those who bear responsibility for accountability due to overpayments made third parties makes the writs of Court of Accounts controversial. It is it is unlawful to rule without any certainty that this can not be collection of receivables from unjust enriched person against the administration. Another issue is that the writs of Court of Accounts the affecting the third persons. It is proposed that this problem be solved by ensuring that the third persons participate as intervenors in the Court of Audit cases or by expanding the Court of Accounts' jurisdiction to include third parties.

**Key Words:** The Court of Accounts, Writ of the Court of Accounts, Judgment on Accounts, Final Judgment.

**JEL Codes:** H83, K10.

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## **Events Encountered in Expertise in terms of Its Effect on Tax Jurisdiction**

**Funda Karakoyun<sup>1</sup>**

### **Abstract**

Experts are the people to whom a judge consults in cases where s/he is insufficient in terms of technical information in a legal action. While financial and technological improvements vary areas of expertise today, a judge's need for experts in solution of financial events is rising. These experts who will help with either relieving work load in cases or getting access to and assessing the proof related to material facts prepare the reports that play role in a judge's verdict. However, while expertise is an entity helping the justice to be maintained in jurisdiction, systemic problems that go beyond the aim can often be encountered in practice. Applications which contradict with requirements of expertise may occur due to the conflicts between the legislation and practice. There is no mechanism that audits objectivity of the people providing expertise review, arbitration, consultancy to the relevant parties of a case with their occupational knowledge when they act as expertise on behalf of fairness.

During the solution of conflict through legal process in tax jurisdiction, it is highly important to prevent the loss of treasury, to protect the taxpayers' rights, and to carry out the material examination and research of the relevant case in objectivity and accuracy in order to provide equality between the parties. Thus, all kinds of transaction related to taxable event and legal cases are based on documentation. This features an expert's ability to evaluate the proof and his/her objectivity.

In our study, problems encountered in practice in the light of legal arrangements on expertise have been addressed, and examples of practice have been examined. Interviews were performed with judges assigned in committee of experts and appointed in tax cases in scope of this qualitative study. The findings obtained through in-depth interviews were assessed in scope of a qualitative study including the literature review.

### **1. Introduction**

Experts are technical people helping a judge with solution of a disputed event in tax jurisdiction. An expert's report includes proofs and evaluations which influence a lawsuit process and the verdict at the end of lawsuit. Aforementioned reports must be brief, clear and unsophisticated and only related to the material issue. An expert must understand the query of the judge in scope of tax jurisdiction principles and report the evidence with burden of proof in accordance with codes of conduct on a reason. A judge and parties expect expert's reports to be drawn up on time and meticulously with a manner of service to the justice. The institution of expertise has been attributed to certification with a requirement

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for revised training in accordance with legal amendments. However, structural problems of expertise as a profession and the problems encountered during practice have still been discussed. A qualitative study has been designed in consideration with the issues detected in the legislation and practice. The relevant persons consisting of a judge, members of council of experts and trainers of experts were asked for their opinions in scope of the study. In-depth interviews were conducted in scope of the research in order to determine the effect of the profession of expertise on tax jurisdiction.

## 2. Definition and Elements of Expertise as a Profession

An expert is a person consulted in cases requiring solution, expertise, special or technical knowledge aside from legal knowledge of a judge or prosecutor and a legal name given to the people who are specialized in the relevant topic (Yenipinar:2016:16). Experts perform their duties in order to carry out the legal services upon which it is undoubtedly agreed that they are among usual public services or contribute to their proceedings, which means they carry out a civil service. If an expert's review is limited to evaluation of the existing evidence, it is considered as a tool for evidence assessment, if it is not limited to that, and reveals new evidence, then it acts as an evidence assessment. On the other hand, it is also possible that a judge refers to an expert's review on some topics s/he can examine her/himself (Organ&Sevinç: 2016:118). The necessary conditions to exist in order to charge experts for the damages resulting from their misstated reports and components of tort liabilities are asserted in Article 41 of Code of Obligations Tanriver: 2005:149)

Expertise is a duty performed in regard of public welfare. While the power of decision about what is the public welfare is an authority of legislative organ as required by the Constitution and positive law, the body materializing and implementing public welfare is executive power (Gedik, 2016: 33). Tax audits mean supervising and making in-depth research on accuracy of the books and documents of enrolment kept by taxpayers and tax responsables in terms of either accountancy technique or compliance to tax legislation. Turkish Tax Law includes rules based on real and concrete evidence, which thus aims to provide tax justice. To this end, it is no doubt that the real fact will ground on taxation and the examination will be performed to this purpose. " Therefore, reports should be prepared based on legal evaluation with the capability of evidence (Tank:2016:105). An expert's review in tax jurisdiction should be performed in accordance with concrete evidence over book registrations and documents. It is expected during the process beginning with exploration and preliminary examination that case file and judge's query should be well-understood, the books subject to examination should be reached, evidence should be evaluated in scope of the definition of the crime and *lex stricta* and proceedings should be performed with professional care. Ethical principles that an expert should abide by are listed as follows: (R.G. 2017: 30143, , <http://www.resmigazete.gov.tr>, (3.11.2017)

- Competence and professional care
- Honesty and objectivity
- Independency
- Prestige and trust
- Keeping secret
- Not affording advantage
- Obligation to notify

- Advertising ban

One of the limitations regarding right of privacy in taxation is state's right to information and the other one is arrangement for keeping, protecting and declaring the information obtained to public. Article 127 of Tax Procedure Law should be examined for right of privacy. In accordance with the aforementioned article, authorized inspection officers can seize the book and documents acting as evidence for tax loss (Erkin:2016: 107-108). Evaluation of evidence is limited to a judge's query even though there is tax loss in the expert's review. Hence, it is not a matter of research and examination without a judge's query even if fraudulent acts are detected and there is a risk in tax claim in cases for suspension of bankruptcy.

### 3. Principles Dominating Tax Jurisdiction

Various jurisdiction principles have been formed for an objective jurisdiction.

Legal basis for validity of ex officio examination principle in tax jurisdiction law is stated in item 1 of Article 20 of Administrative Jurisdiction Procedures Law. This article includes the following provision: "Council of State and administrative and tax courts carry out all kinds of examinations regarding the lawsuits they are responsible for on their own. [...] They may request the documents they consider essential to be submitted and every kind of information to be transferred from the parties and other relevant entities" (Ergün, 2006:6). The court will perform every kind of research on its own, independently from what the taxpayer present or does not present, for any necessary evaluation in taxation procedure. A taxpayer does not have the duty to prove any situation as a rule because clarification of taxational situations is not a taxpayer's duty but a tax office's duty based on ex officio examination principle. Ex officio examination principle removes the subjective burden of proof (Başaran: 2013 :232-233).

In judicial opinions of Council of State, information and documents requested from third persons and entities regarding the taxation in accordance with their expertise field are highly valuable as evidence. General Assembly of Tax Courts of Council of State has numerous precedential decisions which detect ex officio examination authority limitation (Tank: 2016:35-137). The essential reason of implementation of principle of circumstantial evidence system in tax jurisdiction procedure is the fact that this field of law is included in public law and the decision to be made is related with public order. In this regard, ex officio examination principle takes place in Article 20 of Administrative Jurisdiction Procedures Law (Mutluer& Dayanç:2014: 282).

It is obvious that "public welfare" is considered as an exception to principle of equality in the relevant decrees regarding tax of Constitutional Court. When we consider the decrees of Constitutional Court on taxation , such statements as "hindering tax loss, providing public welfare on condition that necessary funds are collected to finance civil services" , "accelarating tax collection, resolution of disputes and therefore the arrangement performed in order to provide the balance between public welfare and legal security is not contrary to principle of state of law" can prove that the notion is abstract, general, undefinable and its content cannot be defined clearly (Gedik:2016:35).

Economic Approach Principle is an interpretation method specific to tax law and is of vital importance in terms of examining real nature of proceedings the taxpayers perform in order to evade taxes and determining the taxable event in accordance with real nature and

therefore features as a guiding principle in determination of tax-veiling proceedings (Keskin: 2006: :111). “Economical approach” emphasized to be specific to tax law and used in assimilation with tax law foresees the fact that the core – financial axis – should be based beyond the forms while tax norms are interpreted and taxable event is detected and specified ( Akkaya:2004: [www.danistay.gov.tr](http://www.danistay.gov.tr)).

#### **4. Expertise in Tax Jurisdiction**

Taxpayers may sue against the proceedings started on them by the tax offices to tax courts of first instance beginning from the notification of the aforementioned proceeding to them with claim of contradiction to law within thirty days without any limited amount. It is possible to appeal to Council of State within 60 days beginning from notification for the decrees which can be appealed Regional administrative courts have made as a result of re-evaluation of the event in order to supervise the event. The decrees the Council of State has made as a result of supervision of legality upon the request of appeal are precise and cannot be a matter of examination by means of taking it to any judicial authority by the parties (Beşel: 2017:56). Ex officio examination stands out among judicial principles in terms of evidence examination and evaluation the experts will make in tax jurisdiction. Hence, another legal basis of validity of ex officio examination in tax jurisdiction is regulated in Article 3 of 213 Numbered Tax Procedure Law. The article mentioned amends the following principle in item “B” titled “Proof”: “the real nature of taxable event and proceedings related to it is fundamental”. Thus, it is stated that it is essential to detect the real characteristics of a taxable event. In accordance with Article 3/b of Tax Procedure Law, in case it is claimed there is a situation not conforming to financial, commercial and technical requirements or there is a normal and interlocutory event, the burden of proof belongs to the party claiming it. The party claiming a situation which is not in the nature of things is liable to prove it. The real nature of a taxable event and proceedings related to it can be proved with every type of evidence excluding an oath. A witness testimony which does not seem related with a taxable event cannot be used as a tool of proof (Aksoy, 2013, <http://www.danistay.gov.tr>, 6.02.2018).

#### **5. Problems Encountered in terms of Expertise**

Innovations in technology and computer network in scope of National Judiciary Informatics System and law in the jurisdiction provide great convenience in terms of acceleration of law system. E-law applications have brought great innovations in terms of expertise. However, it is stated numerous judges submit each case to expert due to heavy workload in practice and simple calculations for compensation are made. On the one hand, resolution of nearly each event necessitates separate expertise because various business methods and payment systems come into action in business life thanks to the improvement of technology and information sector; therefore, it has become nearly impossible for a judge to decide without any help from an expert in any case related to these mentioned above, and even an expert working in that sector may have difficulty in understanding the dispute (Yenipinar, a.g.e:25). Although it is forbidden in the legislation, legal experts such as faculty members, lawyers and etc. have been selected as experts ex officio or upon request under different identities for years. The Supreme Court has decrees encouraging legal experts to be selected as experts in legal matters. It is requested to remove law expertise with the proposal. Yet, there has

always been a conflict between the legislation and practice. Since there are surplus of case files in practice and legal issues are complicated, judges still continue to consult the experts of law for legal issues. Decrees of the judges referring to the experts on legal issues can be considered as undue, and may be accepted as a reason to appeal. It can be concluded that the judge has the responsibility of discipline. A council of assistant judges can be created and assigned to solve the legal issues. Some sanctions can be anticipated in relevant legislations for the legal persons acting as experts. For example, extrajudicial resolution ways can be developed through provisions to be included in Legal Practitioners Act (Organ & Sevinç: 2016:127). Evidence obtained through methods resulting in breach of rules of law is against the law. Whether the evidence complies with the law or is against the law is mostly related to how it is obtained. The methods to reach the evidence are specified with special or general provisions in the codes. Forbidden methods to collect evidence are listed in domestic law of a country and also in universal norms (Yenipinar: age:38). There are structural problems and problems encountered in practice in expertise institution. There are many issues to be emphasized such as parties' pressures on experts, an expert's affording advantage in his/her relationship as an expert or consultant, experts' avoidance from this profession as a result of low salaries which require great effort and overtime work.

## 6. Conclusion

Expert's reports drawn up in consideration with evidence in scope of financial and technical requirements in cases subject to taxation must be prepared in a sufficient and meticulous way to respond to a judge's request. However, it is seen that the service provided has come worrying inadequencies and problems in terms of its role in providing the justice in the jurisdiction. While an expert's research, examination and evaluations are discretionary proofs for a fair trial, problems included in expertise may suspend from the concept of service that will help jurisdiction. Upon examination of existing problems, the judge's query cannot be well-understood. Expert's reports are imprecise and complicated. While unjustified and biased reports digress from service quality, they reflect insufficiency in terms of *special and technical information*. Duties cannot be distributed in relation with responsibilities in the council. There may appear various problems resulting from uninstitutionalized ways of expertise such as insufficiency of salaries, lack of supervision, and inadequency of experts. It is frequently encountered that the persons assigned in cases requiring a council of experts have not worked before and the report is drawn up just one of them. Necessary legal studies should be carried out in order to help the profession to get access to sufficient development and standards. To this end, our study consists of sample expert's reports in tax jurisdiction, detection of problems and acquisition of suggestions through qualitative statements.

**Keywords:** Expertise in Tax Law, Tax Jurisdiction, Expert Review, Proof.

**JEL Classification Codes:** K34, K40, K49

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# Technology Impact in Market Failures: Blockchain

Ezgim Yavuz<sup>1</sup>

## 1. Introduction

The first crypto money, known as Bitcoin, as a criticism and "anti" of the banking system in the 2001 crisis, has undergone a technological advance as the result of a crackdown that can be described as economic warfare. The new technology world, called Blockchain, is not only an alternative to the use of fiat money, but also provides many opportunities from the health sector to the energy sector. The event, which emerges as a result of technological innovation, allows for a more functional operation of the market. Blockchain technology is becoming more widespread and becoming a part of everyday life. In the study, it is argued that the use of technology in question will reduce the need for government intervention against market failures. To this end, Blockchain technology is described and the common areas of market failures and usage of the technology are examined.

## 2. Digitalization of Common Knowledge

When people are not yet part of the modern world and are not based on the state structure, while they were living in communities in the form of tribes in short, there was no need to intermediary institutions to make a debt guarantee for one person's property that was used by third parties. The relations between the people were not mentioned on contracts like bank receipt. The natural order between them was based on common knowledge. When a person borrowed from a second person, this debt guarantee was provided by those in the community. If this debt was not paid back, the individuals in the community were in this state of witness. It is possible for a large number of individuals in a small community to have wisdom and common knowledge to be operational; the increase of population and transition to modern community made this situation impossible. Even though individuals in the modern world seem to be part of a community, now each individual begins to live in his own individual world, in his individual cell/room, so to speak. At the same time, the rapid increase in influence has also made it difficult to communicate with one another and to share information reliably. Individuals living in private rooms have come to the point where they need intermediary institutions or resources to communicate with the community and/or conduct their work. The continuation of communication through digital elements provided a clear sense of confidence to be questioned. Blockchain has made it possible to create value by creating common knowledge through technology and enable individuals to communicate without the need for intermediaries.

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Blockchain technology was first developed by an anonymous person or group known by the nickname of Satoshi Nakamoto. The first use of the system was done with crypto money, called Bitcoin. The emergence of the system is based on the damage to the confidence in the bank during the 2001 crisis. The said person or persons intended to remove the compulsory need of the trust of the intermediary institutions. The reason behind this is that financial institutions have to mediate various kinds of problems in their organizations, although they can mediate in the execution of electronic transactions and give reliance on the realization of transactions. Nakamoto cites these issues as increasing the transaction fees of the presence of intermediary institutions, limiting the minimum transaction limits to low-limit transactions, requiring commission-fee and reverse transaction reversal, and mutual trust in transaction reversals. In addition, he adds that intermediaries may disturbed their customers by the information they receive about them. While the mentioned problems can be solved by the use of physical money, the use of electronic media requires intermediary institutions. Nakamoto found that the solution of this need was to use the electronic payment encryption method. By using the method, called Bitcoin, it is aimed to eliminate these costs and problems by enabling the parties to establish direct relations with each other (Nakamoto, 2008: 1). The Blockchain technology behind Bitcoin, has made it possible to use in much more fields apart from financial institutions.

### 3. Blockchain Technology

When compared with the system used today, Blockchain technology presents the record keeping and transaction follow-up in a decentralized manner. Blockchain establishes a widespread control system by distributing the authority of follow-up and execution of daily interactions to the users instead of the central system. Disseminated control is the basis for a more transparent system than the centralized system. If a transaction becomes legitimate without a central authority, it becomes a massive ledger where all users are held and copies of all transactions are held by computers. Each transaction can be added to the Blockchain as long as the users have approved it. Each new transaction to be recorded is combined with the previous processes and kept in a block, and the blocks are arranged in a historical chain to form a block chain, namely Blockchain. The resulting block chain is open to all users and can be stored on personal computers by everyone. On computers, those who keep the Blockchain notebook and approve transactions are called data miner and work mining. Anyone who uses the system may have the right and authority to become a miner and approve operations, if he desires so. Miners can add blocks containing information of the operations performed to Blockchain, solving mixed mathematical cryptographic problems. Every new block added to the chain is an update of the book of accounts found on the whole of the miners. When miners verify the reality of the transaction, this information is added to the Blockchain; the added information is shared among all the miners. If there is any dispute, the transaction will be invalid and will be rejected by the miners. The block is valid and transforms into a public archive that cannot be changed as long as it is added to the system. No miner has the opportunity to change approved transactions. **51% of all miners** in the system have to approve the transaction **at the same time** in order for a non-correct transaction to be approved and registered. This situation is considered to be impossible by technologically minded reviewers because it requires a very high amount of energy. The reliability of the system comes from the impossibility of achieving the same energy required for the approval of a counterfeit operation (Boucher, et. al., 2017: 5).



#### 4. Blockchain Impact on Market Failures

Even though Blockchain technology has been invented for the use of crypto money transactions, its usage areas are expanding day by day. Blockchain technology can be adapted to many different fields, such as banking, academic publications, healthcare, electric energy.

The hiding and sharing of scholarly publications with this technology will ensure that the world where it lives is quickly accessed by people all over the world.

This technology allows recording of important factors such as the temperature change they are exposed to when moving the goods from one place to another. The availability of this property in terms of health, such as drugs, follow-up vaccines, can increase community health and well-being. Another example from the point of view of health is that people can keep all health information on the system and it will give an idea about diseases that people can carry from their past generations (Krawiec, et. al., 2016).

In a similar way, the follow-up of foods and the faster realization of formal tasks will lead to more efficient use of food resources (Lin, et al., 2017).

Another area of use is the energy sector. In the future, it is possible to produce electricity in houses with the use of different technologies. Unused quantities of these energies that can be produced by individuals for everyday use can be exchanged with Blockchain technology (Breuer, 2018).

Another area is that it makes possible to trace the past of goods on the second hand market. As an example, any positive/negative information about a good can be accessed by recording any accident, maintenance or other information that a second-hand car spends from production to end-user through the system. Examples can be replicated through precious metals such as diamonds and insurance (Pisa & Juden, 2017: 30).

The diversity in usage areas made it possible for everyday necessities to be able to record transaction records faster and at lower costs than today's costs while fulfilling these needs. All this diversity comes into play. Economically, efficiency refers to the efficient use of resources. Blockchain technology is making Pareto improvements in both producer and consumer utility with the usage of innovations in these areas. As an illustration, usage in the field of academic papers can be given as an example to public goods, in the same way, healthcare to externalities, energy to natural monopoly, protection of good information without any alteration and being accessible to this information to asymmetric information. Thus, technology can reduce the need for state intervention and increase efficiency by providing more efficient use of resources in areas where market failures are seen.

#### 5. Conclusion

Different Blockchain technologies create a wide range of usage possibilities, such as information, health, energy and past knowledge of goods. Various uses of Blockchain technology can create a large data pool. The data pool is not just for today's individuals; It also gives the opportunity to touch future generations. Thus, both today and in the future, it allows the efficient functioning of the market by reducing the need for state intervention in

various fields and opens the way for an effect that increases the social welfare. The development of such a technology that can lead to an increase in the welfare of society and the contribution to every field that can be applied should be opened and supported. To this end, legal regulations on the areas of use of the technology should be introduced, research and development should be encouraged to develop the technology and in addition to spread the usage areas.

**Key Words:** Blockchain Technology, Market Failures, Efficiency.

**JEL Codes:** H00, H21, H23, H41, O31.

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# **A Critical Approach to Counter Productivity Characteristic of Investment Incentives**

**Esra Doğan<sup>1</sup>**

## **1. Introduction**

Investment incentives, although come to the fore in the context of the economic policies implemented in Turkey after 1980, has a long history dating back to pre-Republican. Considering the social context as well as the historical context, it can be seen that the importance of incentives for state, economy and social relations are not limited by the economy but also political content is evident. Accordingly, it can be said that the incentive mechanism due to the characteristic of state aid is practically within the scope of public resource management and, in theory, within the political context of the problem of publicity.

In the scope of this study, it is aimed to ascertain the investment incentives in Turkey in the view of publicity and also sociality and reveal the historicity beyond the understanding of chronological time. For this purpose a total of 17 years of investment incentives statistics published by the Ministry of Economy for Turkey for the years 2001 to 2017 have been examined. By means of this examination, firstly it is being planned to examine that the objectives of investment incentive policies and secondly reveal the consistency between the applications and the objectives of incentive policies.

## **2. Overview of Investment Incentives**

While there are different applications on the world scale of the Investment Incentive System, these practices can be regarded as economic policies towards capital accumulation in the most general sense. The accumulation of capital is being legitimate as it directly enhances national economies on the national scale and indirectly on an international scale. In this respect, especially emerging economies seem to have adopted incentives as a means of basic fiscal policy, both in promoting national capital and in attracting international capital to their countries. In this context, the investment incentive system as a fiscal policy instrument, will be examined in two main categories, historical process and social context.

### **2.1. Historical Process of Investment Incentives**

Investment incentives, with the characteristic of state aids, have come to the fore as the main means of transforming the interventionist nature of the fiscal policy into a regulatory characteristic, especially with the liberalization policies towards the capital which started in the 1980s. However, the national nature of investment incentives under international trade arrangements, with the priority of the World Trade Organization's Subsidies and

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Countervailing Measures Agreement, has been determined mainly in accordance with international agreements. Accordingly general framework of national policies were generated in 1990s with the international arrangements of which Turkey is included and depending on this by the shaping of incentive regulations as it categorized on the basis of the justifying reasons since 2000s seems to be strengthened. An incentive system has been constituted in line with the identified objectives that provide national development in the form of regional incentives for horizontal equality, large-scale investment incentives to increase technology and research and development capacity, and incentives for the production of products with high import dependency. Moreover, when the decisions of the Council of Ministers numbered 15199 for 2009 and 3305 for 2012 and the laws numbered 5084 and 5350, were examined, it is seen that the incentive system is being extensive as an instrument of fiscal policy by providing diversity in incentive instruments.

## **2.2. Social Process of Investment Incentives**

While the state aid characteristic of investment incentives on one side causes incentives included in the context of political economy, on the other hand it reveals the political process characteristic of the public finance. The state aid characteristic of investment incentives is the legitimacy ground of the sovereign power, separating the incentives from the public and the social. According to this, with the incentive applications that the state has legislated in order to realize its targets in accordance with development plans and annual programs, growth, employment and production will be increased and accordingly social welfare will be increased due to development. While the investment incentives provided by the government lead to the development and hence the accumulation of domestic and foreign capital, however, citizens provide resources for the capital accumulation via taxation. Thus, the case of while profits are owned by capital owners and the corresponding costs for profit covered by the citizens, corresponds to the process of cost socialization expressed by James O'Connor. The case of cost socialization reveals the role of the state, public and society relation mainly involved in the related incentive system. The main determining actor in this relationship is the owner of the capital. In this reciprocal relationship, the state has a dual function of convincing society to endure certain costs in order to provide public income, while it provides public services to capital owners through the arrangements it has made for capital accumulation. However, it can be said that the contradictory characteristic of dual function of the state arises from the duality of public and state. According to this duality, state which covers the public and the private is the main actor for providing the aid, on the other hand, public which related to the common interest concept as opposed to the individual interest is the main actor for providing source of aid. In this direction, the income obtained by the common interest, serving as the individual benefit as the state aid, causes the socialization of the cost while the profit is being privatized.

On the other hand, the process of persuading the society to endure the costs is provided by the legitimacy function of the state as expressed by O'Connor. Accordingly, the means by which the incentive system serves the objectives of production, employment and ultimately economic growth and development constitutes the base of legitimacy. This context, in which the incentive system is instrumented, can be said to be an illusion causing by transformation of the social cost burdened by the common interest motivation to the individual interest.

### 3. Conclusion

Investment incentives as an political instrument by means of national development goals and plans and also as a field revealed capital accumulation and legislation functions of the state in accordance with the neo liberal policies, are the main fiscal policy instrument of Turkey. The incentive system has finally been a purpose spesific categorized status by the reforms of the Public Administration Reform, which is shaped by the neo-liberal policies, as well as the transformations in the historical process, and its implications on the fiscal system.

In this framework, it is emphasized that the incentive system is the main political field that reveal the factual counterpart of the relationship between public finance and public. As a result of the statistics of the pivot table investment incentive certificate for the period of 2001-2017 issued by the Ministry of Economy which was used to determine the factual situation, it is conluded that investment incentives system as categorized purpose spesific is not consistent said purposes. From these results, it can be said that fiscal incentive policies with a counter productivity characteristics for the targets of development plans and the purposes of the mentioned incentive laws cause a public illusion. Finally it can be offer that fiscal incentive applications that have become one of the main instruments of the fiscal policy should be a political process that should be dealt with by a broader social structure.

**Key Words:** Capital Accumulation, Fiscal Subsidy, Publicity, State Aid.

**JEL Codes:** E62, H2, H8.

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# Internal Migration in Development Plans and the Effects of Investment Incentives on Internal Migration\*

Zeynep Karal Önder<sup>1</sup>

## 1. Introduction

A five-year development plan has been prepared in Turkey since 1963. These plans define the priority policy areas of the government. Internal migration in Turkey has seen a significant increase after the 1950s. However, policies implementing or planning in development plans are not directly related to internal migration but are directly affect internal migration under the headings of regional development, settlement and urbanization. Except for the tenth development plan, it is seen that the goals related to internal migration are carried out together with the objectives of economic development. Thus, this paper is aimed to discuss the objectives of the tenth development plan and examine the effect of the investment incentive system on the internal migration.

The main purpose of this study has two sub-purpose. The first is identifying policies in the development plan for internal migration, the second is analyzing the effect of investment incentives on internal migration between 2008-2017. In this context, a dynamic regression model will be estimated with panel data analysis using migration (incoming migration) data and investment incentive data for 81 cities.

## 2. The Importance of Internal Migration for Turkey

The address-based population registration system was introduced in Turkey in 2007-2008. Since this year, immigration statistics have been collected on a regular basis annually. From 2008 to 2017, the ratio of internal migration to population is about 3%, which represents a population of 2.5 million. The migration of 2.5 million people per year means that a population of European country like Macedonia, Slovenia, Estonia migrates every year, in other words, a country's economy is relocating within the country.

In 2017, 92.30% of Turkey's total population located in the urban areas, 7,70% of Turkey's total population located in the rural areas. Half of the 2.5 million migrants are high school or faculty graduates (TÜİK, 2017).

Beginning in the 1980 internal migration in Turkey, but especially after 2000, has a direction of a city to city and this type of migration become permanent. According to the Survey of Population and Housing by TURKSTAT in 2011, the rate of those who migrated from the city to the city is 58% (TÜİK, 2013).

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According to the average values of the year 2013-2016, the first three cities with the highest number of immigrants-receiving were Istanbul, Ankara and İzmir, while the first three cities with the highest out-migration were İstanbul, Ankara and İzmir.

When we examine the net migration statistics, the three cities with the highest net migration are Istanbul, Ankara and İzmir until 2016. By 2016, Istanbul has become one of the net out-migration city. The other three cities with net out-migration are Van, Mardin and Ağrı.

### **3. The Relation between Internal Migration and Public Policy**

The relationship between public policies and migration is based on public economy theories. The public economy theories provide a framework for state-market relation. This framework specifies the limit of government authority. The person's decision, enforcement of such groups like the state, the gangs ... etc. can cause a migration decision. Whatever the reason, there is a strong link between migration and public policy.

### **4. Development Plans and Internal Migration in Turkey**

In Turkey, rural-urban migration flows started in the 1950s, it continued until 1985 (Akşit, 1998: s. 25). Modernization in agriculture and transformation in the economic structure have caused rural-urban migration. Rural-urban migration has transformed socio-economic structure. This was a dynamic mutual process. In the 1st, 2nd and 3rd Development Plans, this phenomenon was examined under the section of the settlement, regional development and urbanization.

In all three plans, the economic goals took precedence of social goals and sometimes the migration was supported uncontrollably due to the fact that it created a labour-power in the city (DPT, 1977: s. 45).

Until the 1980s, uncontrolled migration caused serious problems in the society, and in the fourth development plan, a specialization commission was established. This commission identified the situation and offered policy alternatives. Although the "Population, Demography Structure, Migration Specialization Commission" was established in the Eighth Development Plan, no direct internal migration policy was produced. On the Ninth Development Plan, internal migration was evaluated on the topic of settlement and urbanization.

The most important expansion related to migration in the development plans has been realized on the Tenth Development Plan. In the Tenth Development Plan, a specialization commission on migration was set up and the commission prepared a detailed report on migration. However, due to the global trends, the report focusing on refugees had only limited findings for internal migration. However, the report includes the most comprehensive findings for the internal migration policy. For this study, the report's most important finding is "The success of social and economic policies depends on the success of meaningful and effective internal migration policy because of the link between migration and production and reproduction of social problems" (Kalkınma Bakanlığı, 2014: s. 53).

## 5. Internal Migration and Investment Incentives in Turkey

Internal migration is a phenomenon that can produce both negative and positive results according to how the migration policy is managed and induced. Uncontrolled internal migration usually results in economically negative consequences, such as poverty for the individual and significant burdens for the government. On the other hand, managed and induced internal migration can both decrease the burden of the government and create significant positive impacts on economic development.

Tekeli (1975, s. 158-161), defines four types of migration in different societies for different reasons; Migration in a society can emerge for reallocate distorted balances, adapting to social transformations, the consequences of migration policies and as a human movement that cannot be avoided within the social system. These four types of migration are influenced by direct or indirect public policies.

Differences between regions tend to be reduced by the emigration of relatively abundant resources from the region and immigration of relatively scarce resources into the region. Buchanan interprets the effects of government policy on internal migration in three policy instruments: the central government's different income tax incentives, unconditional equalization and conditional equalization (Buchanan, 1952, s. 209). These policies will ensure optimizing the resources.

Turkey also implements an investment incentives policy to eliminating regional imbalances and promoting investment in the less developed region. Investment incentives is an example of conditional equalization. Investment incentives is an example of conditional equalization. Two investment incentive system has been implemented in Turkey in 2009 and in 2012.

Between 2009-2017, a total of 39.002 investment incentive certificates were provided, of which 2043 were foreign and 36.959 were domestic. This incentive certificate corresponds to fixed investment of 735.489 million TL, of which 225.581 million TL is foreign capital and 509.908 million TL is domestic capital. A total of 1.326.872 people are planned for employment with these incentive documents (Ministry of Economy, 2017).

This study will evaluate the relationship between public policy and migration by a panel data analysis.

## 6. Conclusions

The results of the study show that the incentive system has not effective results regarding the spatial distribution of the population. This is not the reason that the investment incentives as a conditional equalization policy haven't affect the internal migration. Investment incentive policy in Turkey is also not an effective policy for economic goals. We can find a lot of study about this topic in the literature. As clearly seen in the purposes of the Development Plans, economic objectives are prioritized, a policy that doesn't achieve their first objectives, does not serve the others like the spatial distribution of the population as a secondary objective.

This study has two main results. First, there is no direct policy on internal migration till tenth development plan but policymakers reflected the significance of internal migration with the tenth development plan. In the policy document agreed on making up the deficiency about the lack of analytical knowledge of internal migration and creating an integrative policy.



The second important result is that the investment incentive system does not affect migration from less developed regions.

**Key Words:** Internal Migration, Development Plan, Investment Incentives

**Jel Codes:** R23, H23, H50

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# Fiscal Decentralization Relationship and Regional Competitiveness: The Case of Turkey

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Murat Aydın<sup>2</sup>

## 1. Introduction

In the process of globalization, while national states are exposed to the suppression of supranational structures, their politics applied from central to local administration have also changed from local administration to central. The phenomenon of decentralization has begun to gain an importance increasingly together with this change experienced in the understanding of public administration.

The fact that the emergence of regions as an important actor in an environment where decentralization has gained importance has necessitated to shape the regional development plans unavoidably again according to the conditions of the day and to decrease the developmental differences between the regions. Because the regional policies affect both the domestic and the national economy.

Increasing the economic competitiveness of a city, a region or a nation depends on its ability to transform its values they have into high value-added products and services. It is also argued that local units are more effective than the central administration in terms of effective use of resources. All these reasons are in fact necessary to investigate whether there is a relation between competitiveness and decentralization.

The purpose of this study, the fiscal decentralization and regional competitiveness in Turkey was to determine whether there is a linear relationship in the scope of literature review. For this reason, between 2009 and 2014, the competitiveness index and fiscal decentralization values on the basis of regions were calculated and it was tried to be determined whether there was a meaningful relation between them.

## 2. Conceptual Framework

Every competition emerges within a framework of competition. This also applies in an opinion competition realized to strengthen the regional development potential (Kersten et al., 2015: 15). For this reason, the regional competition refers to the ability to produce goods and services that meet market requirements and provide high and sustainable revenues at the same time. In general, it can be defined as the ability of generating relatively high

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incomes and employment of regions when based on foreign competition (Jordan & Chilian, 2017: 72).

In other words, the regional competitiveness is the ability of providing a high and sustainable income level together with its success in competitiveness that has been carried out with other regions or cities in a region or city, national, and in particular, its global export market share (Kumral, 2008: 4-5). Urban infrastructure, social and cultural equipments and innovativeness features are as effective as economic structure in regional competitiveness. For this reason, the levels of competition vary according to the features and developmental characteristics of cities and regions (İpek & Öksüz, 2015: 635).

Decentralization is the transfer of responsibilities and resources (Zagorcheva & Velcheva, 2017: 47) from centralized administration to local authorities in the simplest way (Barasa et al., 2017: 2), which is widely applied as part of wider economic and political reforms in low- and middle- income countries. In short, the transfer of authority (power), responsibility (tasks) and resources is expressed as well (Rauch, 2009: 3). Decentralization is divided into three as political, administrative and fiscal decentralization according to the sorts of the decentralized authority (Varcan, 2013: 5).

When we tackle the fiscal decentralization only, as the focus of the study, it suggests that fiscal decentralization represents the transfer of fiscal duties to local governments for high growth and better public service delivery (Rauf et al., 2017: 174). In the broadest sense, it is the transfer of political responsibilities from the central government to the local governments in terms of revenue collection and expenditure. In other words, it expresses the most decentralized state structure that brings constitutional limitations to the decision of all central government policies by assigned or elected central planners and that can internalize all externalities (Hayrullohoğlu, 2016: 340-341).

What is expected from fiscal decentralization is to solve the problem of inefficiency in the public economy by strengthening the performance of the public economy (Karagöz, 2015: 140). In other words, fiscal decentralization is expected to increase the economic efficiency as local governments are closer to the public than the central government and know better about the preferences of local people (Faridi & Nazar, 2013: 142). It is also much easier for local administrations than central administration to serve according to the demands of the people and to use local resources for this purpose. The determination of what is needed and what qualification is can be seen more clearly locally, but not centrally (Vural, 2015: 19). Local governments need to be equipped with the necessary authorities and resources in order to be able to serve public effectively and the requirement of having the resources that they can use on their own results from this reason (Yontar & Dağ, 2014: 149).

### 3. Methodology

In the study, it has been dealt with the relationship between fiscal decentralization and competitiveness of the regions throughout Turkey. The dataset, variables and sources of data used are as follows. There are two basic data in the study. The first is the competitiveness index of provinces, and the second is the share of provinces in general budget expenditures. After being obtained on the basis of provinces, the data have been reclassified according to Level 1 of the Economic Zone Units Classification (EZUC). The data were collected in 12 groups. In addition, the study covers the years 2009-2014. The reason

for the coverage of these years is that the study of the competitiveness index among the provinces has been carried out by the International Competitiveness Research Institution (ICRI) from 2009-2010 until 2013-2014.

Two sources were used in obtaining the data. The final accounts published by the General Directorate of Public Accounts (2017) were taken into consideration in the study called "2016 Interprovincial-Competitiveness Index" (2016) prepared by the International Competitiveness Research Institution (ICRI) for the competitiveness data of the provinces, and in the preparation of the fiscal decentralization data. The fiscal decentralization data was formed directly by ourselves because it was not found in any source. In the calculation of fiscal decentralization, the method of proportioning to the general budget expenditures of the expenses realized in the province was used. Data obtained on the basis of provinces are reclassified according to Level 1 of the Economic Zone Units Classification (EZUC).

#### 4. The Analysis Findings

Both the competitiveness index and the level of fiscal decentralization of the regions are given in Table 1 and Table 2 in the analysis findings of the study.

**Table 1: The Competitiveness Levels of Regions**

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
TR1	74,68	74,85	74,53	76,03	76,1
TR2	9,104	10,384	10,412	11,466	10,95
TR3	12,37625	13,1225	12,53875	13,61625	13,32
TR4	13,80375	15,75	15,38	16,8975	16,48
TR5	21,74333	22,52333	22,66667	24,55	23,9
TR6	9,78	10,48875	9,99125	10,9225	10,0875
TR7	6,64625	7,65375	7,18125	8,555	7,62375
TR8	6,577	7,063	7,481	7,868	6,878
TR9	7,616667	8,255	7,635	8,706667	7,593333
TRA	3,644286	4,084286	3,708571	4,081429	4,181429
TRB	2,78	3,1925	2,965	4,1375	3,74125
TRC	2,397778	2,923333	2,225556	3,286667	3,087778

As shown in Table 1, the competitiveness index of all regions in Turkey by years has been taken place. During the formation of the competitiveness index, some data have included two periods (for example, educational data) because they are not a single calendar year. When the period between 2009-2010 and 2013-2014 is investigated, in Table 1, it is seen that the TR1 region ranks first with a big difference by far, while the TR5 region ranks second. In addition, TRC region has the lowest competitive power in all periods examined.

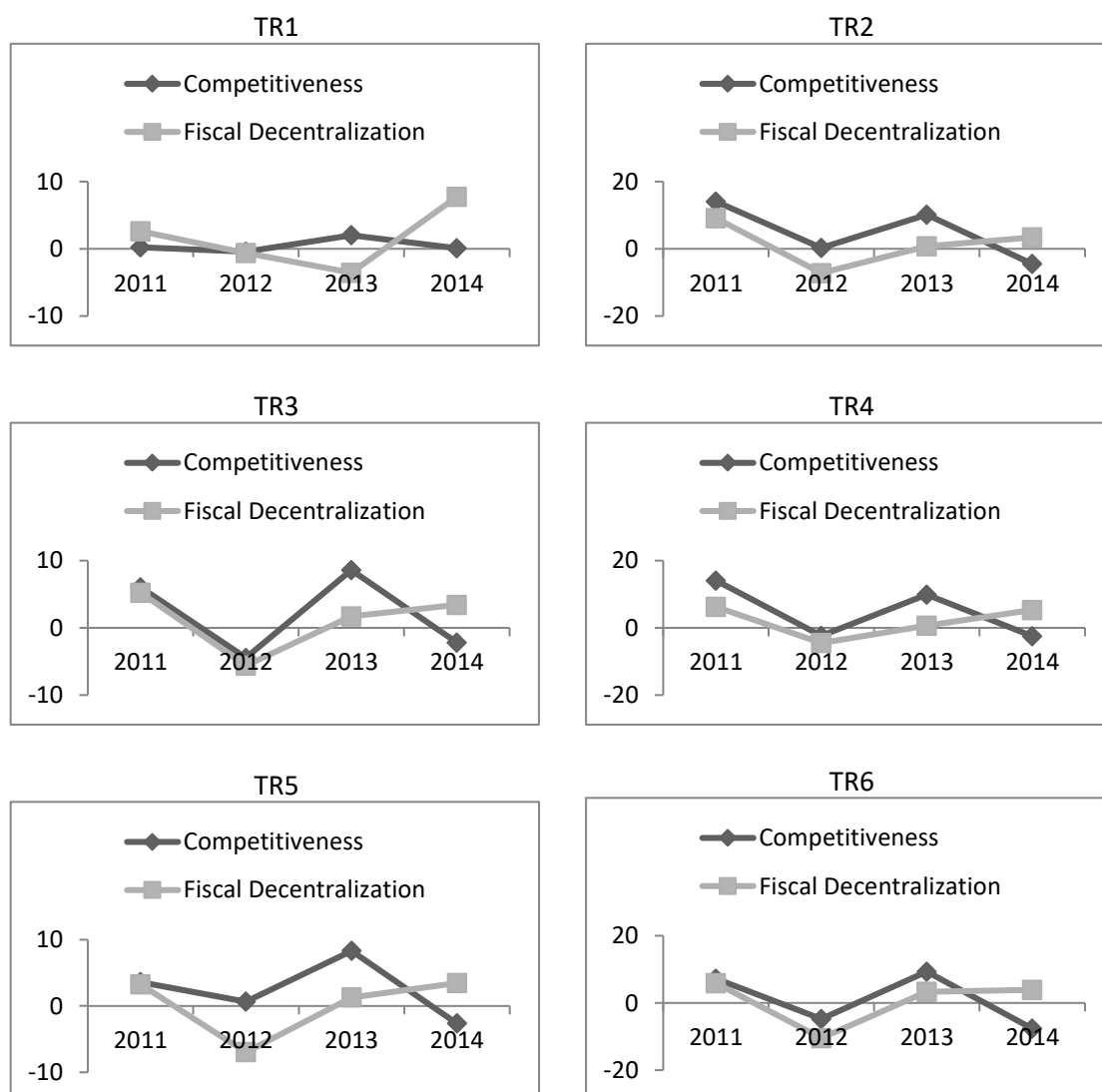
**Table 2: The Fiscal Decentralization Levels of the Regions**

	2009	2010	2011	2012	2013	2014
TR1	3,339688	3,522029	3,613462	3,589944	3,462408	3,729906
TR2	1,397726	1,432158	1,562425	1,449602	1,459693	1,508699
TR3	3,722509	3,867902	4,070956	3,842355	3,907667	4,042481
TR4	2,475949	2,621897	2,785842	2,660499	2,679504	2,821552
TR5	3,80074	3,838057	3,963569	3,687083	3,734549	3,864015

TR6	3,612733	3,780634	4,002804	3,583668	3,703804	3,846379
TR7	1,820628	1,956644	1,903006	1,781075	1,810119	1,840499
TR8	2,223622	2,393333	2,270629	2,140742	2,198265	2,225179
TR9	1,303838	1,348353	1,39526	1,206026	1,233238	1,261112
TRA	1,349896	1,439561	1,441604	1,29299	1,289092	1,33303
TRB	2,515125	2,773788	2,455934	2,280833	2,300285	2,427577
TRC	3,440588	3,592606	3,881449	3,391696	3,436543	3,64936

In Table 2, the fiscal decentralization levels of regions in Turkey are set forth by years. TR3, TR5, TR6, TRC and TR1 have the highest fiscal decentralization rates when the average of 2009-2014 years has been based on and evaluated respectively. The regions with the lowest fiscal decentralization rate are seen as TR9, TRA, TR2 and TR7 respectively.

**Graph1: Change of Competitiveness and Fiscal Decentralization Levels of Regions**



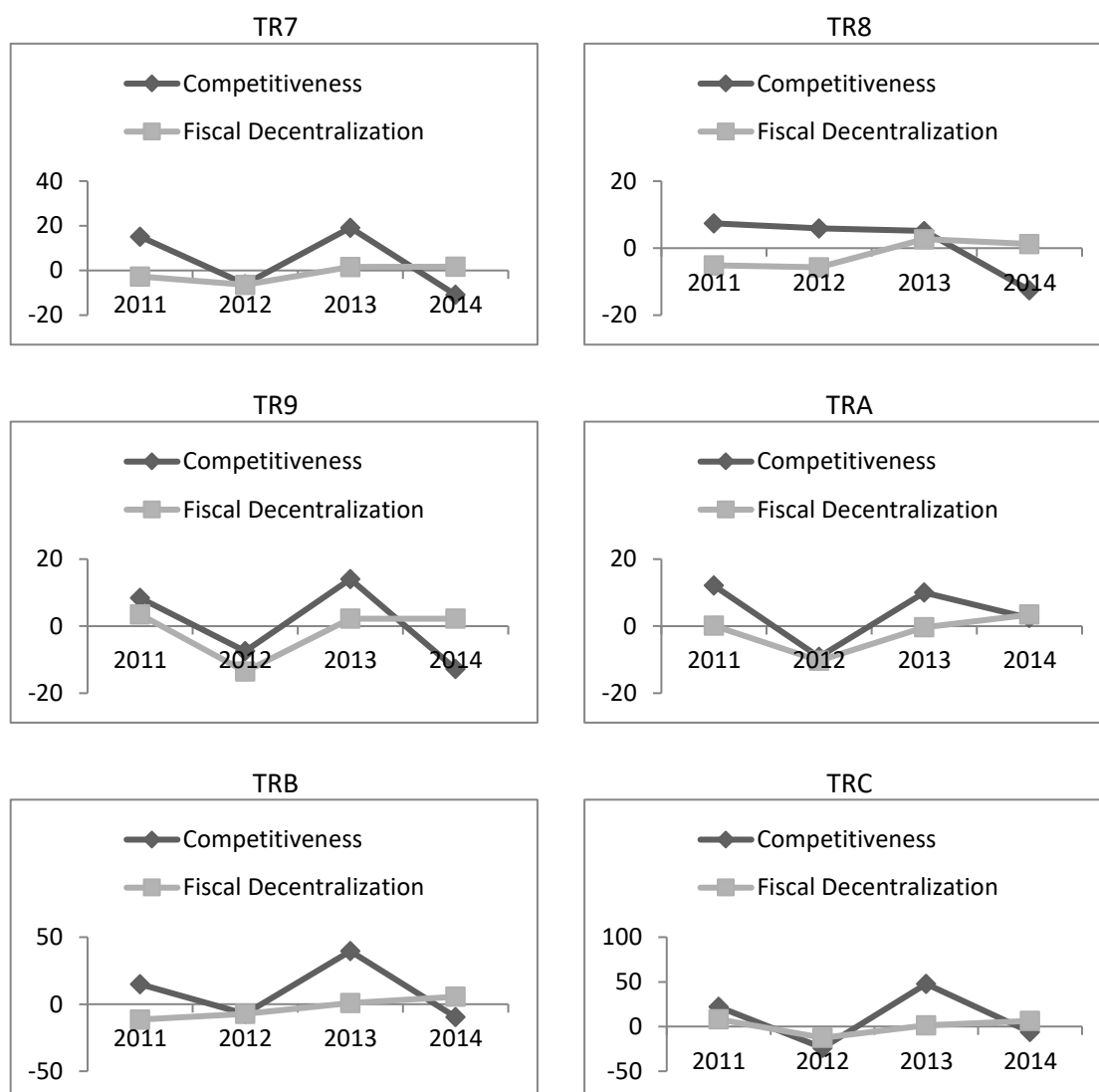


Chart 1, the changes both in the competitiveness and in the level of fiscal decentralization that have occurred in 12 regions of Turkey has been introduced. As seen in Graph 1, it is not fair to say that these two variables are totally interdependent and there is a generally positive relation between competitiveness and fiscal decentralization.

## 5. Conclusion

It is clear that both the concept of regional competitiveness and the concept of fiscal decentralization aim at the effective use of resources. For this reason, it will not be incorrect to expect that the change experienced in one of them will affect the other.

In this study carried out on the basis of quantitative data, it has been targeted to determine whether there is a relationship between the concept of regional competitiveness that has gained popularity in recent years and the fiscal decentralization case, one of the subjects that have been discussed most in the literature and it has been tried to make an assessment on the basis of regions in Turkey.

As a result of the analysis made, it seems to be even a little positively correlated with each other of regional competitiveness and fiscal decentralization variables in terms of the percentage of change over the years. As a result, it can be said that increasing the fiscal decentralization in general will have a positive effect on the competitiveness of the regions.

**Key Words:** Competitiveness, Fiscal Decentralization, Turkey.

**JEL Code:** H77, O18, R51.

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# Crowding-In Effect of Public Expenditures: The Case of Turkish Defence Industry

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Özkan Zülfüoğlu<sup>2</sup>

## Abstract

Economists have long agreed that, if the supply of goods and services is fixed and resources fully employed, the government can claim more of the economy's output only by depriving the private sector of its use. In other words, public expenditures thought to crowd out private investment. The objective of this paper is to show that such prevailing view is misleading. Present paper will provide evidence from some late industrialized countries like Japan and South Korea that public expenditure may indeed crowds in private investment. Since defense industry is a part of the overall industrialization process and crucial for strategic reasons in any nations, this paper will focus on the Turkish defense industry to provide evidence for crowding in effect.

## 1. Introduction

According to monetarist economic view, increased government expenditure is met by borrowing from capital market which causes rise in interest rate. Increased interest rate, on the other hand, reduces private investments. This effect is called the crowding-out effect. On the other hand, Keynesian economists argued that increased government expenditures can boost the demand for goods, which in turn increases private demand for new output sources.

The basic argument of the crowding-out hypothesis is sound: Unless the economy produces enough additional saving, more government borrowing will force out some private borrowers, who are discouraged by the higher interest rates. This process will reduce investment spending and cancel out some of the expansionary effects of higher government spending. However, if deficit spending induces substantial growth, then the crowding-in effect will lead to more saving and fund for private investment.

As Galbraith (2008, December 03) put succinctly, "a successful program of public expenditure will create profit opportunities that will encourage private businesses, many of which will otherwise close, to stay open and eventually to expand." Therefore, such public spending will crowd in, not crowd out, private investment.

Similarly, Krugman (2009, January 5) points out that "other things equal, public investment is a much better way to provide economic stimulus than tax cuts, for two reasons. First, if the government spends money, that money is spent, helping support demand, whereas tax cuts

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may be largely saved. So public investment offers more bang for the buck. Second, public investment leaves something of value behind when the stimulus is over.”

Even the founder of Monetarism, Milton Friedman, who believes wide-spread government failures, accepts that “if resources are unemployed, by increasing utilization levels government spending can stimulate investment in productive capacity and thereby increase real private spending also ... Debt-financed deficits need not crowd out any private investment, and may even crowd in some (Friedman, 1978: 596-597).

## 2. Economic Effects of Defense Industry

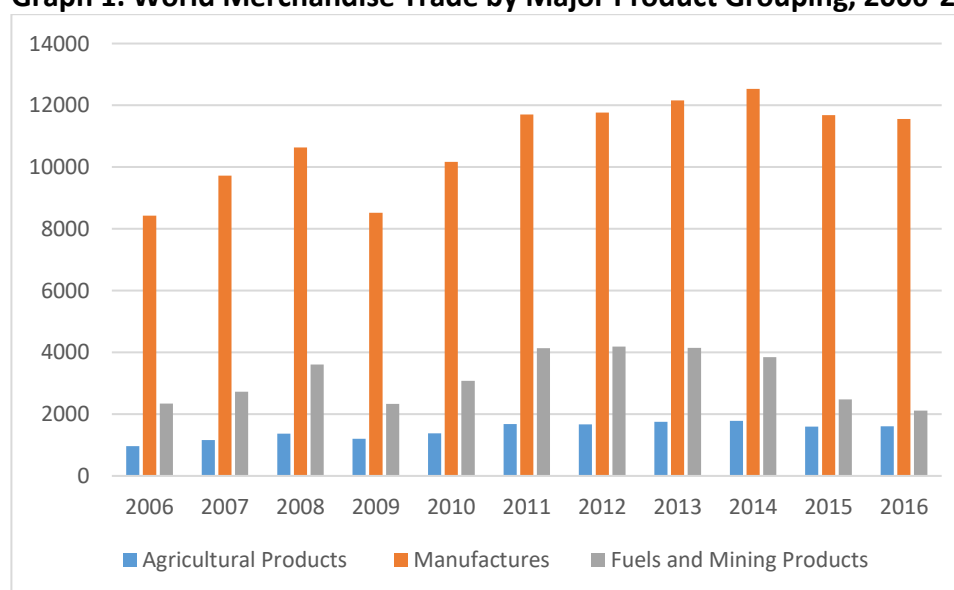
It is well documented that the role of the state was key in the success of high-fermorming East Asian countries and these countries focused on industry since that is the sector creates high value. As seen in Table 1, trade of fuels and mining products are on decline. Although trade of agricultural products looks better, this is misleading. Because that is more related to the Great Recession that started in 2007 and intensified in 2008.

**Table 1. World Merchandise Trade by Major Product Grouping, 2006-2016**

US\$ billion	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Annual Percentage Change
Agricultural Products	964	1160	1373	1199	1375	1680	1671	1747	1781	1594	1610	5,3
Manufactures	8431	9722	10638	8519	10166	11703	11764	12157	12536	11682	11557	3,2
Fuels and Mining Products	2342	2725	3612	2330	3077	4134	4188	4151	3844	2474	2117	-1,0

**Source:** WTO, World Trade Statistical Review 2017.

**Graph 1. World Merchandise Trade by Major Product Grouping, 2006-2016**



**Source:** WTO, World Trade Statistical Review 2017.

High value tend to be created in the industry and defense industry that this paper focuses on is a crucial industry that nations invest for economic and strategic reasons. The World allocates 2.3% of gross domestic product for defense expenditure (Akman, 2016: 137).

## **2. 1. Defense Industry and Its Externalities**

Defense industry that this paper focuses on has many positive externalities for many other industries. First of all, it is a part of the overall industrialization and development, which is closely related to many fields and it is R&D intensive.

## **2. 2. Defense Industry and Economic Development**

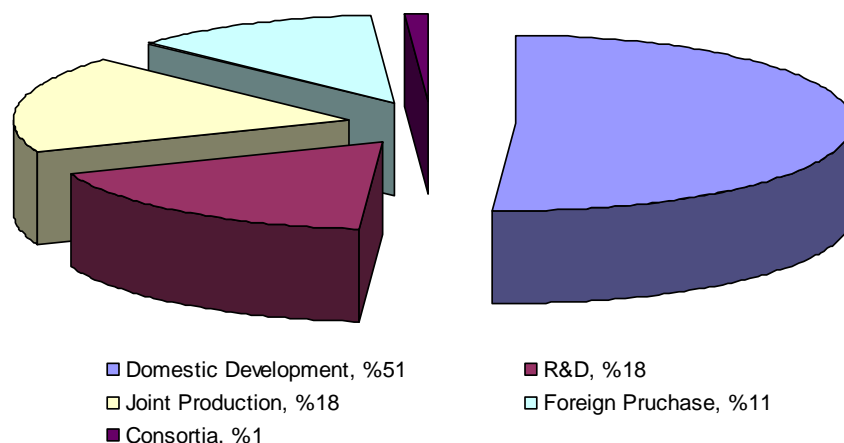
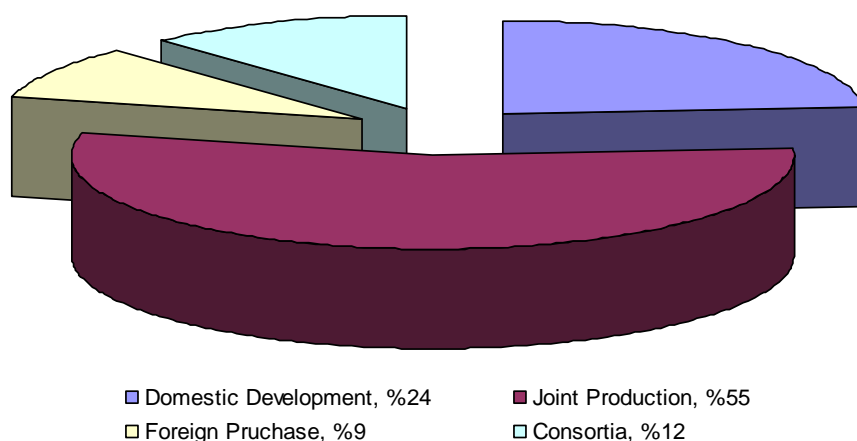
Defense industry is a part of the overall industrialization and development, which is closely related to many fields and it is R&D intensive.

## **3. Development of Defense Industry in Turkey**

No significant defense industry infrastructure was present during the first years of the Republic and activities in this domain were limited to the establishment of new facilities near Ankara during the Turkish War of Independence. Having the view that defence industry is a part of the overall industrialization and development, the Republican Administration supported the State's guidance in industrialization and therefore the defense industry during the first planning period. Despite such activities as the in-country aircraft production, a strong –infrastructure could not be established due to internal and external conditions.

Cyprus crises in 1963 and 1967 and the Cyprus Peace Operation in 1974, the arms embargo imposed on Turkey as a result of this Peace Operation proved the need for a national defence industry. During the crises, Turkey was face with the difficulty of dependence on foreign supply. The deadlock experienced in this period caused to seek ways to reactivate national defence industry. After 1974 Turkish Armed Forces Foundation were established with this understanding and some investments, though limited were initiated.

Turkish defense industries are now able to manufacture authentic products and have a wide research and development programme in which main supporter is TÜBİTAK .

**Procurement Projects by Number****Procurement Projects by TAC**

MILGEM is perhaps the most successful program in Turkey's defense industrialization effort. It plays on the strength of the country's shipbuilding industry and incorporates indigenous products such as Havelsan's combat management systems, Aselsan's electronic warfare counter measures, and Roketsan's anti-ship missiles. It has already made strides in the export markets. In June, Turkey finalized a \$1 billion deal to sell four Ada-class corvettes to Pakistan (Kurc & Sazak, 2017, August 15).

The exports of the industry were 1.647 million USD in 2014. Though the volume of defense turnover and exports increase progressively, the share of defense exports in total exports makes only a slight one percent. However, the exponential growth of R&D expenses of the industry represent a strong commitment to acquire new commercial items and there is a considerable growth potential of the industrial output and exports in the subsequent years (Akman, 2016: 143).

#### 4. Conclusion

Coordination should be established between the state and the private sector, the two main actors of the economy. So that new opportunities and strategies for economic growth emerge. The power of the state in regulation and planning and the competitive and innovative side of the private sector can create synergy. This synergy can reveal opportunities for economic development of Turkey's economy. Moreover, if the government spending is on very high return projects of the kind the free market will grossly underprovide due to market problems (like externalities, asymmetric information, economies of scale, monopoly problems, inability to price discriminate well, and many more), then real wealth and investment funds may increase in the future.

Defense is a crucial industry that nations invest for economic and strategic reasons. The Turkish Defence Industry firms which have intense R&D activity are also the ones which have better overall performance.

**Key Words:** Crowding-in, Externalities, Defense Industry

**JEL Codes:** H11, H23, H54, G18

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# Inefficiency of Formal Credit Markets and Shadow Economies: Panel Data Analysis

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Sacit Hadi Akdede<sup>2</sup>

## 1. Introduction

Shadow economies are important for various reasons including economic efficiency and tax generation purposes. There exist a vast literature on the determinants of shadow economies.

Shadow economy is a central issue for public finance as by its nature informality implies lower tax revenue generation and lower efficiency in public services. Firms and entrepreneurs opt for informality for many reasons. The costs and benefits of being formal depend on various factors such as tax rates, costs of formalization, wealth of the entrepreneurs as well as the relative advantage of having access to formal credit. The channel in which the inefficiency of formal credit markets, proxied by the interest rate spread (lending minus deposit rate), influences the shadow economy has not been studied. We examine this channel by using panel-data techniques for the time of 1980-2012 and for more than 100 countries. Even after controlling for other variables that are expected to affect the size of the shadow economies, we find significant and positive association between the spread and the size of the shadow economy

## 2. Related Literature

D'Erasmus (2013) finds that as the formal credit market becomes more efficient the size of the formal labor share increases. Massenot and Straub (2016) also underline the association of inefficient formal credit markets and the productivity of enterprises and the size of the formal sector.

Basbay et. al. (2016) emphasize the relationship between the labor-intensive nature of shadow economy and the energy use. Accordingly we use capital stock as a control variable. Benhassine et. al. (2018)

## 3. Data and Econometric Results

The data is compiled by using two main resources. One is Basbay et. al. (2016) from which we obtain size of the shadow economies (**Shadow**). The rest of the variables are taken from the World Bank Development Indicators. Below is a summary table.

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### 3.1. Description of the Data

**Spread**, measures the inefficiency of the formal credit market as the difference between the lending and deposit rates.

**Trade** is a control variable as the ratio of total trade volume (exports and imports) to GDP ratio.

**Inflation and Unemployment** are standard variables in their conventional units.

**GFCF**, is gross fixed capital formation as the proxy for capital stock and investment.

**Table 1. Summary Statistics**

	Obs.	Mean	St. D.	Min	Max
Spread (% points)	3010	7,629	7,867	-8.854	80.333
Shadow (%)	3010	33,490	13.789	7.765	88.575
Trade (%)	2677	19,520	16.847	0.179	266.33
Inflation (%)	2821	21,667	207.118	-35.837	7485.492
Unemployment (%)	2552	9,397	6.789	0.300	39.300
GFCF (%)	2780	22,418	10.947	-2.424	219.069
GDPperCap (2010 Constant Dollars)	2298	14845,290	16911.500	247.437	129349.900

**GDPperCap** is the real GDP per capita measured in 2010 dollars and is used for controlling the income level for each country.

### 3.2. GMM Results

As there may exist an endogeneity issue considering the potential effect of the size of the shadow economy on the efficiency of the credit markets in general and formal credit market in particular we employ General Method of Moments estimation .

Relevant tests of autocorrelation and validity of instruments are reported in Table 2 below.

**Table 2. Dependent Variable is the Size of the Shadow Economy (%) (Shadow)**

	Coefficient	St. Error
Shadow <sub>t-1</sub>	0.971***	(0.005)
Spread	0.013***	(0.005)
GFCF	-0.040***	(0.005)
Inflation	0.001***	(0.0001)
Trade	0.002*	(0.001)
N. Obs	4448	



Sargan Test	122,72	
AR(1) Test	-1.89	
AR(2) Test	-0.12	
Wald Test (Coefficients)	72031	
Wald Test (Time Dummies)	136.87	

#### 4. Conclusion

We find that the inefficiency of formal credit markets, measured by the spread, is positively associated with the size of the shadow economy in a panel of countries for the period of 1980-2010.

This finding is important as it implies that decreasing the size of the shadow economy requires some institutional developments besides tax policies or making the economy more capital intensive.

**Key Words:** Shadow Economies, Credit Market Spread

**JEL Codes:** O17, E24

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# **Light on the History of Anatolia (Asia Minor): Taxation in the Hittite Civilization and the Role of Fiscal System in the Destruction of the Hittite Empire**

**Abdullah Burhan Bahçe<sup>1</sup>**

## **1. Introduction**

The history of mankind provides information on civilizations, economies, politics and legal content of the laws, perhaps the most known or best known history. When the subject is taken into account in the history of the fiscal or tax history, it is seen that this development has emerged and sustained by the existence of the authorities.

Nowadays, while searching for the right and justice in terms of basic needs, production and distribution relations of economic and legal people, starting from archaeological findings; the starting point of the taxation history is shaped by the emergence of authorities and the desire to increase the personal prosperity and wealth of these authorities.

Undoubtedly, the endless war woes of these civilizations which had been established in Mesopotamia and Anatolia, which were defined as the superpowers 5000 years before today, and which had established all political, economic and fiscal structures and the booty, tribute and tax revenues obtained as a result of victories; it was observed that taxation had become an in disputable structure in the long-term empires in the process, ahead of economics, law and politics.

In this study, political, economic, fiscal and administrative achievements of Hittite Empire which was one of the most powerful and effective administrations of the period and would form the basis of the civilizations in the region of Anatolia or Asia Minor are emphasized. Then strategical failures of Hittite Empire and trying to explain the factors that led to the destruction of the Hittite Empire.

## **2. Anatolia in the Age of Hittite**

In the Chalcolithic Period, when people started to use metal in handicrafts 6000-7000 years before today, the richness of Anadolu's copper and mine sprouts had made it a global player. By the beginning of the 3000 B.C., the Bronze Age had begun due to the importation of tin to Anatolia through commercial activities extending to Mesopotamia, Syria, the Red Sea, the Aegean Sea and Cyprus.

Among the trade centers called "Karum", where the Assyrians founded in Anatolia due to abundant copper, gold, silver and precious stones, them asters who were producing in Anatolia were buying tin and precious fabrics for copper and silver.

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This period, in which economic and commercial activities are highly developed, is tried to be explained through reference sources.

### **3. Economic, Fiscal and Administrative Structure of Hittite Empire**

Initially, the Hittite State, which had been a city-state, reached a managerial integrity with the participation of other city-states and there location of the state center to Hattusha. Starting from the 2000 B.C., a centralized management consisting of various management units in the Hatti region had been developed. In addition to the hierarchy of the Palace, a bureaucratic system of civil, military and state administration had been established in the state organization of the Hittites. A theocratic structure with the ruling class, the clergy, the merchants, the crafts men, the free villagers and slaves; palaces, temples and wall sand urban structures had been established.

It is emphasized that the mode of production was the slave mode of production in Hittite Empire. Accordingly, the Hittite economy was shaped by a redistributive system. The main incomes in the Hittite Empire came from the booty obtained from the war and the tribute and taxes obtained through the peaceful means of linking other states to the capital Hattusha. Since the monetary economy had not yet passed by the end of the period, collected taxes and tribute were deposited in silos and tanks in the capital Hattusha in the form of the same commodities. It is stated in the Hittite Empire that the economic priorities were to finance the capital Hattusha.

Under this title, the above-mentioned points will be expanded.

### **4. Fiscal Achievements and Strategic Failures of the Hittite Empire**

The military and diplomatic problems that the Hittite Empire faced in maintaining its existence and its effectiveness were mainly due to its geographic allocation and economic needs. The rich agricultural areas that provide the grain needs of the capital Hattusha had to be protected yearly from the Kashka raids coming from the north. The creation of a border line in order to prevent these annual raids had been a constant problem for the Hittite authorities and had become a constant challenge for the Hittite kings during the Imperial period. Besides, the battle was carried out near Kadesh

approximately in 1274 between the army commanded by the Hittite Emper or Muwatalli II and the army commanded by Egyptian Pharaoh Ramses II, and the first peace treaty that followed were important achievements of the Hittites.

Under this title, economic, fiscal and military successes of Hittites and strategic mistakes made by Hittites were evaluated.

### **5. The Erasure of the Hittite Empire from the Stage of History**

The policy of controlling the ways that the Hittite Empire developed in the Old Kingdom period and delivered the important raw materials that were effectively applied during the Imperial period provided the Hittites with a power and authority that no other Near Eastern state would have.

On the other hand, the destruction of Hattusa, the center of the empire, ended the Hittite Age when trade routes of the Hittite Empire were cut off as a result of the invasion of the tribes described as "Sea Peoples" in the history. It is expressed that the Hittite Empire was destroyed by sea tribes emigration and from the north by Kashka militia attacks approximately in 1200 B.C.

## 6. Conclusion

5000 years legal, economic and fiscal history of Anatolia, and later had formed the basic structure of many states and nations that took the place of those civilizations. The feature of Anatolia as a unifying bridge between East and West thousands of years ago; the dimensions of agriculture, animal husbandry, production and trade spread by wave and continued to influence in the next millennium. The Hittite civilization, which would form the basis of the civilizations in the region, which was almost all of Anatolia or Asia Minor, was one of the most powerful and effective administrations of the period with its 1000 year historical background and 600 years of empire with its political, economic and fiscal structure put its mark on history.

In this study; political, economic, fiscal and administrative achievements of the Hittite civilization, which emerged at the level of an organized state from the city-states, and which was located on the stage of history as a great political force, and the booty and treaty revenues obtained from the war economy, and the ordinary and extraordinary revenues that are out of it, and the inefficiencies in the fiscal and taxation sense, which are important factors in the destruction of the Hittite civilization from the historical scene are emphasized and the main factors are tried to be revealed.

**Keywords:** History of Anatolia, Hittite Civilization, Taxation

**Jel Codes:** B11, H20, N01

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# The Relation between Accountability and Culture in Turkey

Habip Demirhan<sup>1</sup>

## 1. Introduction

Competitiveness, efficiency, productivity, participation, transparency and accountability have become the key elements for public sector within the context of good governance approach that has developed rapidly since the end of the 1980s. The accountability concept, which is considered as one of the key principles of good governance, has a broad and complex structure and also shows differences among societies and cultures.

The accountability concept is firstly mentioned in Seventh Five Year Development Plan and then accepted as a core concept by the Law Number 5018 issued in 2003. After these process, attempts have been made to develop various mechanisms for accountability, but no success has been achieved at the desired level.

The concept of accountability, which is desired to be implemented in our country, is rather a structure that is shaped by the reforms the IMF, the World Bank and the European Union desire. The aim of this study is to find out whether an accountability mechanism shaped by the reforms desired by various international institutions is appropriate for Turkish culture.

In this framework, a comparison was made between the accountability dimensions in the literature and Hofstede's cultural dimension theory, which is considered as a reference in international cultural studies. As a result, the relationship between the Turkish culture and the accountability mechanism has been examined.

According to the results obtained, it has been found that the Turkish culture should not support the existing accountability mechanism which is tried to be put in place by the directives of the international organizations, and that an accountability mechanism which is appropriate to Turkish culture should be developed.

## 2. The Accountability Dimensions

There are different definitions of accountability in various scientific studies. For this reason, Sinclair (1995: 219-221), describes accountability as chameleon-like and express that each researcher deals with a different kind of accountability; for example, some researchers are concerned with financial and accountability of accountability, while others have also explored the ethics of the concept.

In parallel, Mulgan (2000: 556) states that accountability is a complex and difficult subject. In addition to this complex and ambiguous meaning of accountability, there is "incommensurability" problem for accountability in non-English speaking countries.

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The meaning of accountability differs in terms of various countries and cultures. When we look at the definitions for accountability, it appears that the concept generally covers five important dimensions (Koppell, 2005: 95).

**Table 1. The Accountability Dimensions**

Conception of Accountability	Key Determination
Responsibility	Did the organization/individuals follow the rules?
Transparency	Did the organization/individuals reveal the facts of its performance?
Controllability	Did the organization/individuals do what the principal (e.g. congress, president) desired?
Liability	Did the organization/individuals face consequences for its performance?
Answerability	Did the organization/individuals fulfill the substantive expectation (demand/need)?

**Source:** Koppell, 2005:96

### 2.1. Responsibility

Being responsible means being attached to someone and able to give answers at the same time (Lucas, 1993: 5). For this reason, when someone is responsible for something; like "Why did you do it?" Or "Why did not you do it?" should be answered. Such questions are the main questions of responsibility in the context of accountability, and sometimes responding to such questions also includes responding to accusations (Bovens, 1998: 22-23).

### 2.2. Transparency

Transparency is an important tool in assessing organizational performance that's important for other dimensions of accountability. The belief that governments and governments, firmly rooted in our collective consciousness, are open to regular inspection and trial, show that transparency has a natural value. In order to be able to evaluate the responsibility of accountability in the context of transparency dimension, the question "Is the institution's activities and the reasons for its actual performance clearly visible?" is of crucial (Koppell, 2005: 96).

### 2.3. Controllability

Controllability includes all processes from the beginning of the responsibilities of the assignment to the beginning of the engagement with obligations and sanctions.

### 2.4. Answerability

It is important to explain the reasons for the failure of public institutions to achieve their goals and objectives related to their performance. For this reason, accountability is an

obligation to make an explanation, to respond and this response is supported in practice by a reporting activity (Baş, 2005: 403).

## **2.5. Liability**

Another dimension of accountability is the ability to face the consequences of individual and institutional performance. It is up to the existence of transparency that liability can be raised, that is to say, to praise, to ridicule or to accusation about performance. Here, it is important that whether the institution face the performance results it performs or not.

## **3. The Cultural Structure of Turkey**

Here, the cultural structure of Turkey will be examined as Hofstede's theory of cultural dimensions and its relation to accountability will be examined.

### **3.1. Power Distance**

It relates to the level of inequality in the distribution of power in a society (Hofstede, 1985: 347). Turkey, located in the category of countries with large power distance.

### **3.2. Uncertainty Avoidance**

Uncertainty avoidance indicates the degree to which you can respond to mixed situations in the environment (Teoh & Foo, 1997: 32). Turkey is situated in the category of countries where high uncertainty avoidance.

### **3.3. Individualism-Collectivism**

This dimension explains the relation between individualism and collectivity, which is a particular collective judge. Turkey, located in the communalist country category.

### **3.4. Masculinity versus Femininity**

This dimension concerns whether the dominant value systems in a culture are close to the characteristics attributed to female or male gender roles within the social structure (Aycan & Kanungo, 2000: 128). Turkey, located in countries with a matriarchal size category.

### **3.5. Long- Short Term Orientation**

While normativity is at the forefront in short-term oriented societies, pragmatism is predominates in long-term oriented societies (Zayif & Erkenekli, 2015 17). There is not found a dominant dimension for Turkey according to Hofstede's cultural dimension theory.

### **3.6. Indulgence versus Restraints**

There is not found a dominant dimension for Turkey according to Hofstede's cultural dimension theory.

#### 4. Conclusion

The accountability mechanism that's tried to be implemented in Turkey is formed by a culture that has low power distance, low uncertainty avoidance, individualism, long term orientation and indulgence. Turkey's culture has large power distance, high uncertainty avoidance and people are collectivist rather than individualist, they are short term oriented. Consequently, we can conclude that an accountability mechanism, which is developed by reforms directed by international institutions is not compatible with Turkish culture and Turkey has to develop an accountability mechanism that's compatible with its culture.

**Key Words:** New Public Management, Accountability, Culture

**JEL Codes:** H83, M4, M14

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# Participatory Budgeting Concept in Turkey and a Comparative Research of Students: The Case of the Bilecik Şeyh Edebali University

Semra Altingöz Zarplı<sup>1</sup>

Yasin Acar<sup>2</sup>

## 1. Introduction

With globalization, the systems we have implemented in governance have left their place to new searches. It is evident in these searches that there is an increase in the number of local governments that have prioritized citizenship and participation factors. Our country is focused on efficiency, efficiency, accountability and control within the framework of the new public administration. One of the applications that will carry these criteria to our administrations has been the participatory budget.

The participatory budget, which is applied in various countries in the world today, has been implemented in some of the local governments in our country. Although this system, which we have introduced with international programs and projects such as the Turkish-Swedish Local Government Partnership Program (TUSELOG), is limited in number in practice, the number of new public financial management searches will increase over time.

We firstly present the current participatory budget practices in our country in the study and then we aim to reveal the attitudes and tendencies of Bilecik Seyh Edebali University students to the participatory budget. There are a number of mechanisms that constitute participatory budgeting. Among the main causes of the difficulties encountered in the realization of these mechanisms in our country is the level of citizens' consciousness. In the sample of this study, the reason for handling the university students is that they have a certain level of education. The participatory budget perception will be revealed by the survey to be conducted for the students.

## 2. Participative Budget Concept

The general definition of participatory budgeting, Portuguese expression "Orçamento Participativo", can be made as a process by which the public can at least contribute to the economy by taking over part of the administrative budget. In the narrow sense, the participatory budget consists mainly of Porto Alegre's remarkable experience with the participatory budget.

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According to these definitions, the participatory budget, which is an open process to the citizen, is a system that directly combines the existing regime. It consists of negotiations and distributes the resources to the poor, and has features that enable participants to participate in the distribution process. As a broader definition, the participant budget can be expressed as a process by which citizens can voluntarily and permanently contribute to the decision to renew at least part of the state budget with annual series of meetings planned with the managers, through individual or city associations (Goldfrank, 2006: 1)

What is meant with the citizen participation is that the government listen to the people in the decision-making process. Proactive, innovative and transparent government allows the budget process. Negotiating attitudes and participatory management are essential. Management is partnering with citizens for comprehensive planning in service delivery to citizens (Mitchell, 2014:5).

Participatory budget is a new way of planning services in local governments (Community Pride Initiative, 2005: 4). Several organizations, such as the World Bank, the Asian Development Bank, the United Nations (2005), the Asia Foundation and the International Budget Project, have supported the introduction of participatory budget processes at the local level.

It is a mechanism or process in which people make decisions about, or contribute to all or part of available public resources "(UN Habitat, 2004). The World Bank defines participatory budgeting as "an innovative mechanism aimed at involving citizens in the decision-making process of public budgets".

Participation in the budgeting process is usually limited to elected councillors and administrators. The task of local budget is to sort resources in a specific geographical area with well-defined population. Budgeting is a special activity and participation can take place at many points in this activity. The development and implementation of budgeting decisions can take a long time for those involved in the process. Therefore, the process can face resistance in activities where theoretically direct participation is possible (Kluvers and Pillay, 2009: 222).

### **3. The Roots of Participatory Budget**

The participatory budget implementation, which has spread rapidly to the world, was born in the city of Porto Alegre in Brazil's South Rio Grande state. Narrowly defined descriptions of the participatory budget have been derived from the remarkable experience Porto Alegre had with the participatory budget (Goldfrank, 2006: 4). The city of Porto Alegre is a city of about 1.3 million inhabitants, consisting of 16 districts, with neighborhoods under them. Until the 1980s, the municipality of Porto Alegre had major management disruptions. The management of the municipality through an oligarchic dictatorial regime, the widespread use of municipal resources and the lack of services for the poor have now required an innovative administration in Porto Alegre.

Porto Alegre's new constitution in the transition period of democracy has a new era in Porto Alegre with the Labor Party's coming to power, suggesting that the constitutional nature of the new constitution is enough to prepare the ground for the participatory budget (Emil, Kerimoglu and Yilmaz, 2012: 149). After the Labor Party started to work, a participatory budget began to be implemented with a transparent management approach. In the city of

Porto Alegre, in 1989 and 1990, on average, fewer than 1000 people participated in the budgeting process. Not long ago, this number rose to about 8,000 and the number of participants reached 20,000 by the Labor Party's re-election in 1992 (Wampler, 2007: 21-24).

#### 4. Methodology

We firstly present the current participatory budget practices in our country in the study and then we aim to reveal the attitudes and tendencies of Bilecik Seyh Edebali University students to the participatory budget. There are a number of mechanisms that constitute participatory budgeting. Among the main causes of the difficulties encountered in the realization of these mechanisms in our country is the level of citizens' consciousness. In the sample of this study, the reason for handling the university students is that they have a certain level of education. The participatory budget perception will be revealed by the survey to be conducted for the students.

#### 5. Conclusion

In our municipalities, which are trying to implement world practices and this world application in our country, participatory budgeting is implemented not only with civil society organizations, city councils and neighbourhood headmen. Non-governmental organizations, city councils and neighborhood headmen are complementary actors of participatory budget theory. Our municipal municipalities also receive great support from participating budgeting activities. Our practicing municipalities organize monthly meetings with the participation of the citizens in the neighbourhood committees. In these meetings, the demands and needs of the local people are determined and the plans of the municipalities are tried to be adapted to these requests. The attainment of the desired participation and result in these meetings is also linked to the level of consciousness of the citizens and even to the level of education.

**Key Words:** Participatory Budgeting, The New Public Managemet Approach, Local Government

**JEL Codes:** H11, H61, H72

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## Relationship between Economic, Social and Cultural Rights with State Budget: Human Rights Budgeting

Gonca Güngör Göksu<sup>1</sup>

*“Budget is a strong tool in human rights struggle.”<sup>2</sup>*

### 1. Introduction

Defined alternatively as economic, social and cultural rights; human rights turned into a more important issue with International Covenant on Economic, Social and Cultural Rights adopted by United Nations in 1966. Basic rights such as rights for education, health, shelter and food come to minds upon reference to human rights. These basic rights are for everyone regardless of nation, gender, national or ethnic origin, place of residence, color, religion and language.

Budget is the system for allocating resources needed for providing public services and it became an important tool in achieving socio-economic/socio-cultural goals in the late 20th century. Human rights budget designed for this goal is a quite effective tool in supporting women, children, elderly and disadvantaged groups. This budgeting approach is considered among the social budgeting arrangements and aims to transfer more resources and improve the conditions of citizens having trouble in accessing basic rights such as education, health, food and shelter.

The main issue of this study is human rights budgeting. In the study human rights budgeting has been examined and the examples of human rights budgeting analysis from eight countries have been presented. The goal of study is to analyze the relationship between human rights and state budget and to find out what changes human rights budgeting practices cause on state budgets. Another goal is to specify the points to take into consideration in analysis of human rights budgeting. Thus, it is expected that the study will contribute to Turkish public finance literature and shed light on future analysis on the subject.

### 2. Examining of the Relationship between Economic, Social and Cultural Rights with Budget

Human rights are related to human honor. Struggle of human rights aims for recognition of this honor and respect for it. Today, countries freely and voluntarily assume international responsibilities for provision of an adequate life standard, shelter, education/healthcare services and protection of the rights of minority groups (FLAC, 2014:1). The most important

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<sup>2</sup> Thomas HAMMARBER, Swedish diplomat and human rights advocate. He served as European Council Human Rights Commissioner in Strasbourg.

step in protection of human rights is the “*International Covenant on Economic, Social and Cultural Rights*” adopted by United Nations in 1966. This covenant was put into effect in 1976 and various articles are very critical for human rights. International Covenant on Economic, Social and Cultural Rights gives individuals the opportunity to access proper working conditions, social security facilities, equal life standards, education, healthcare services and the highest standards in terms of physical and psychological health (Fundar, 2004:20).

The issue of human rights has traditionally been studied by lawyers. However, other disciplines/actors have recently raised their interest in human rights. Public finance became the rising voice of human rights with the revolutions in the late 18th century (O’Connell, 2013:119). With the end of the Cold War in 1991, human rights policies began to be studied more in macroeconomic level (Hentschel and Rebhan, 2008:2).

Two processes must be well understood to get a better understanding of human rights practices under state budget. The first one is human rights budgeting itself. Human rights budgeting is development and implementation of state budget according to human rights standards and liabilities (Blyberg, 2015:4). Two points are important in human rights budgeting. The first is effective use of available resources. The other is to avoid transferring these allocated resources to other public fields beyond their purpose (Blyberg and Hofbauer, 2014: 5-6).

Another process to take into consideration while analyzing the relationship between human rights and state budget is human rights budgeting analysis. Designing and implementing state budgets according to human rights norms and standards is not always enough to effectively provide human rights. Human rights budgeting analysis requires handling policies and plans together with budget monitoring and evaluating processes (Blyberg, 2015:4). This analysis technique is an effective tool in developing, monitoring, evaluating and defending economic and social rights (Manion et al, 2017:2).

Those who do human rights budgeting analysis must know very well the key components of a certain economic or social group, how to express these components in the budget, methods of budget allocation and how to relate budget and human rights (Manion et al, 2017:5). Steps to follow in human rights budgeting analysis are: (1) Taking legal obligations<sup>1</sup> into consideration as measurement tools, (2) Selecting budget analysis method, (3) Using quantitative data, (4) Defining the process and (5) Studying previous budget analysis (Allen et al, 2016:15).

There are three main types of human rights budgeting analysis. They are revenue focused analysis (how governments generate income); budget allocation analysis (how money is distributed in a budget); and budget expenditure analysis (how governments spend money) (Manion et al, 2017:6). In each of these three methods, quantitative data is used in four ways (Allen et al, 2016:11-12):

- **International Comparative Budget Analysis:** Expenditure of a government in a certain field is compared to the expenditure of other governments in the same field.
- **National Level Budget Analysis:** State revenues, expenditure and allocations are analyzed.

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<sup>1</sup> The relevant obligations are explained one by one in title 2.1.

- **Sub-national Budget Analysis:** Any two regions of a country are compared.
- **Sectorial Budget Analysis:** Revenues and expenditure are compared while conducting inter-sectorial budget analysis.

## 2.1. Obligations in Human Rights Budgeting Analysis

This part of the study involves the obligations to take into consideration in human rights budgeting analysis.

**Table 1. Human Rights Budgeting Obligations**

Obligations	Associated Budget Analysis
Maximum Available Resources	Revenue focused analysis
Progressive Realization	Budget Allocation and/or Budget Expenditure Analysis
Non-Retrogression	Budget Allocation and/or Budget Expenditure Analysis
Minimum Core	Budget Allocation and/or Budget Expenditure Analysis

**Source:** Allen et al 2016:15.

Member states of the United Nations must take necessary precautions for realization of the rights in the covenant and “Maximum Available Resources”. Maximum available resources obligation is the situation where governments use all their potential to activate available resources and realize human rights (Blyberg and Hofbaur, 2014:2). The second obligation of human rights budgeting analysis is Progressive Realization. Progressive realization means that governments will progress in human rights issues, take precautions rapidly in addition to any improvement related to effective use of human rights (Clarence, 2000).

Another obligation of human rights budgeting is improvement. According to this obligation, states may never allow deterioration of human rights unless they have strong causes (PWESCR, 2015:2). States are under certain and continuous obligations to support human rights. The final obligation is Minimum Core. States are obliged to protect the rights of every citizen at the prescribed threshold (Chapman and Russell, 2002).

## 2.2. The Examples of Human Rights Budgeting Analysis

The study involves human rights budgeting analysis from selected eight countries and their conclusions are discussed below:

- Revenue-focused Budget Analysis in Guatemala,
- Analysis of the Impacts of Brazil Tax Reform on Social Policies,
- Analysis of the Right to Shelter in Northern Ireland,
- Analysis of the Poor and Disadvantaged in India,
- Public Expenditure Analysis in South Africa,
- Analysis on Water and Sanitary Works in Canada,
- Analysis of the Education Right in Argentina,

- Analysis of the Right to Health in Mexico.

### 3. Conclusion

All member states of the United Nations play critical roles in protection and sustainability of human rights. Human rights budgeting is an issue that member states cannot neglect. Protection and sustainability of basic rights such as education, health, shelter and food must be given priority while designing state budgets according to human rights. However, determining human rights policies and plans is not enough in budget designing process. Effectiveness of the practices must be studied and analyzed at the end of the budget period. Thus, strengths and weaknesses of the budget must be detected to find out what measures may be taken in the next budget period.

The examples in the study show that fiscal and political decisions on human rights are not effectively practiced in some of the countries. For example; a decision was made in Canada for the right to water and sanitation. However, the results of human rights budgeting analysis show that precautions related to water and sanitation are inadequate. According to the results of revenue-focused analysis and budget allocation analysis in Guatemala, it is understood that the state failed to perform its liabilities on health, education and nutrition.

Protecting, supporting and meeting the needs of citizens are among the main duties of states. Consequently; implementation of human rights budgeting will raise social welfare and will prevent waste of resources.

**Keywords:** State Budget; Economic, Social and Cultural Rights; Human Rights Budgeting and Analysis

**JEL Code:** H5, H61, K38

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# **An Analysis on the Criteria Turkey Fails to Meet Regarding the Evaluation Methodology Amended by Revised Fiscal Transparency Regulation of International Monetary Fund**

**Ali Yıldırım Eker<sup>1</sup>**

**H. Hakan Yılmaz<sup>2</sup>**

## **1. Introduction**

In terms of international comparisons, it has become a need to concretely set forth the countries' fiscal transparency levels; thus, common measures were established by various international organizations, which made it possible to compare countries' fiscal transparency levels by applying different methodologies. In this area, the IMF has developed a methodology to evaluate countries' fiscal transparency levels, setting fiscal transparency as a priority policy area.

The first product of this methodology is the Fiscal Transparency Regulation published by the IMF in 2007. With the new Regulation published in 2014; countries' fiscal transparency evaluations have been started under "Fiscal Reporting", "Fiscal Forecasts and Budgeting" and "Fiscal Risks and Analysis".

Our country has been subject to the IMF's assessment in 2000 and 2008 in terms of fiscal transparency. After the amendment to the Regulation made in 2014, our country requested new fiscal transparency evaluation, and in 2015, the IMF mission made a new evaluation according to the new regulation and the report containing the results was published in July 2017.

This study will firstly discuss the innovations and methodology introduced by the new regulation, and the evaluation and findings regarding Turkey will be analysed considering the discussions on this issue.

## **2. Revised Fiscal Transparency Regulation**

### **2.1. Main Framework**

Fiscal transparency is commonly defined as the government's structure and functions, its intentions regarding the fiscal policy to be implemented, public sector accounts and fiscal objectives are open to the public (Kopits and Craig, 1998: 1). In Yılmaz and Emil's (2004) studies, fiscal transparency is defined as "the government does not save on the facts about fiscal transactions it performs".

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In Yilmaz and Emil's study (2004), transparency is emphasized for two reasons; the first is that the international organizations, especially the International Monetary Fund (IMF), emphasize transparency in the restructuring of the fiscal architecture as it is a determinant in the crises, and the second reason is that the public awareness and thus public demand about transparency in public accounts starts to raise at national level.

After the last global crisis, the countries have had the opportunity to assess their public fiscal management systems and institutions and have learned from the crisis. In this framework, in the post-crisis period, in 2014, the IMF revised the Fiscal Transparency Evaluation Regulation which was issued in 2007. The main reasons behind this change can be summarized as follows (IMF, 2014):

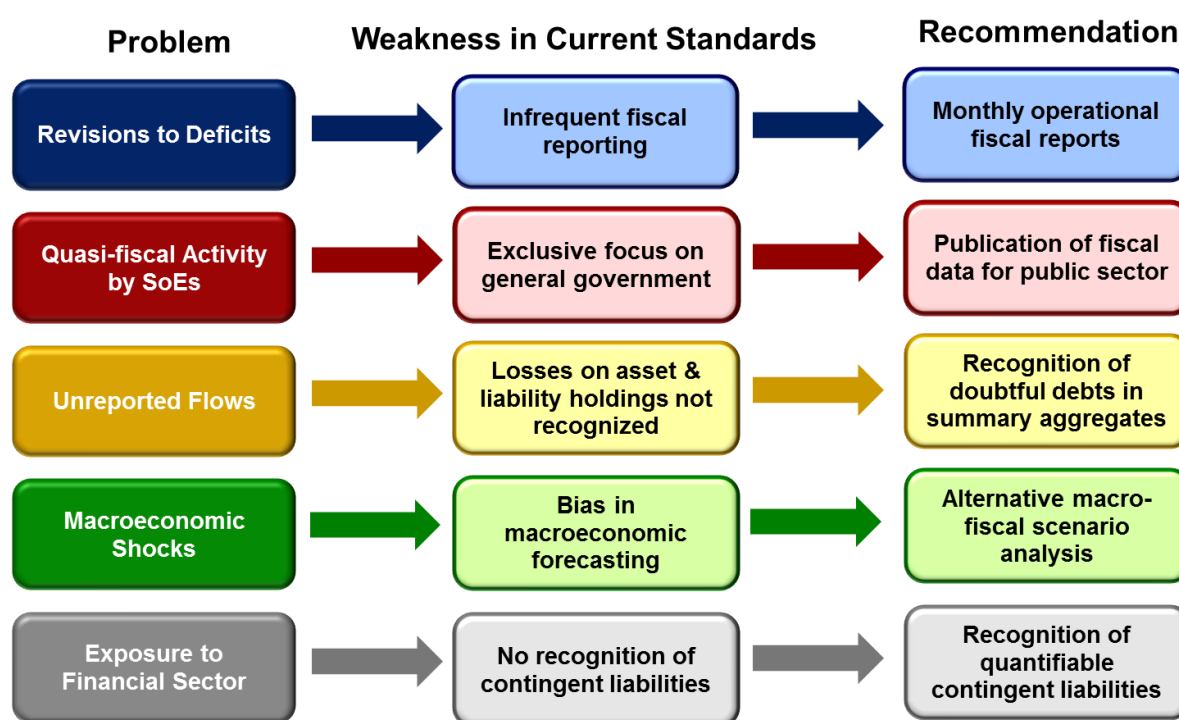
***The IMF's desire to focus on outputs rather than the processes:*** The Regulation published in 2007 included four significant principles that are overwhelmed by procedures such as "Openness of Roles and Responsibilities", "Openness of the Budget Process", "Openness of Information to the Public, and "Independence of Auditing and Statistical Data Publications". The aforementioned principles included in the former regulation did not allow much analysis of the quality and adequacy of the reported outputs.

***The IMF's desire to assess the capacities of member states at different levels:*** Under the Regulation published in 2007, each principle had best practice standards when assessed on its own. However, this did not measure the level of institutional capacity or economic development of country evaluated.

***The IMF's desire to to give more room to fiscal risks in the IMF's evaluation:*** The Regulation published in 2007 gave little room for fiscal risk identification and management. The last crisis revealed the need for the countries to be aware of the fiscal risks.

***The IMF's desire to include recent developments on fiscal management and international standards:*** The Regulation published in 2007, "Publishing information on fiscal activities related to the whole public sector", "Preparation of the balance sheets including all fiscal and non-fiscal assets and liabilities", "monthly fiscal reporting on the general government, and the publication of audited annual fiscal statements every six months" and "the harmonization of information provided by the budget, statistics and accounts".

Figure 1 shows areas where the former regulation is weak. In this context, the former regulation did not allow generation of monthly fiscal reporting, publication of fiscal data for the public sector as a whole, production of alternative macro-fiscal scenario analyses and identification of quantifiable contingent liabilities.

**Figure 1: Reasons for amendment to the regulation following 2009 crisis**

Source: IMF, 2015b

## 2.2. Architecture of New Transparency Regulation

As per the new regulation, the IMF carries out the Fiscal Transparency Evaluation for the member countries under four main sections. These sections are; "**Fiscal Reporting**", "**Fiscal Forecasting and Budgeting**", "**Fiscal Risk Analysis and Management**" and "**Resource and Revenue Management**". The fourth part of the report, "**Resource (Revenue) Management**", is not yet taken into account in the country evaluations by the IMF.

IMF experts evaluate the results according to the three criteria mentioned above according to the levels of importance, namely "**High**", "**Medium**" and "**Low**", as a result of the evaluation according to the new regulation, and an evaluation map is produced at the end of the report. In the map, red colour indicates that the criteria are not met, yellow colour indicates that they are basically met; light green indicates that they are well met and dark green indicates that advanced criteria are met. At the end of the report, regarding that this map shows the level of fiscal transparency; it is desirable that the map has few red coloured areas and more dark green coloured areas.

## 3. Comparison of Turkey with Selected Countries in terms of Fiscal Transparency Measurement Level and an Analysis of Turkey Results

Our country has been subject to the IMF's evaluation in 2000, 2008 and 2015 in terms of fiscal transparency. After the amendment to the Regulation made in 2014, new fiscal transparency evaluation was requested by our country, and the IMF mission in 2015 made a new fiscal transparency evaluation according to the new Regulation and the evaluation

report was published in July 2017. Figure 2 shows a map showing the fiscal transparency measurement level published after the fiscal transparency evaluation for the country.

At the published measurement level, the issues "fiscal reporting" and "historical revisions" could not be met and remained as red area. Again, in the field of "Fiscal Forecasting and Budgeting", "Supplementary Budget", "Public Participation" and "Independent Evaluation" were not met and remained as red area, as well. "Specific Fiscal Risks", "Long-Term Fiscal Sustainability" and "Natural Resources" were not met in the field of "Fiscal Risk Analysis and Management" and remained as red area.

**Figure 2: Turkey Map in terms of Fiscal Transparency Measurement Level**

LEVEL OF IMPORTANCE	LEVEL OF PRACTICE		
HIGH IMPORTANCE	1. FISCAL REPORTING	2. FISCAL FORECASTING AND BUDGETING	3. FISCAL RISK ANALYSIS AND MANAGEMENT
	1.1. Coverage of Institutions	2.1. Fiscal Legislation	1.1. Macroeconomic Risk
	1.2. Coverage of Stocks	2.1. Timeliness of Budget Documentation	1.2. Specific Fiscal Risks
	1.3. Coverage of Flows	3.2. Performance Information	1.3. Long-term Fiscal Sustainability
	4.3. Comparability of Fiscal Data	4.2. Supplementary Budget	3.4. Public-Private Partnerships
MEDIUM IMPORTANCE	2.2. Timeliness of Annual Financial Statements	1.1. Budget Unity	2.1. Budgetary Contingencies
	3.2. Internal Consistency	3.3. Public Participation	2.5. Financial Sector Exposure
	3.3. Historical Revisions	4.1. Independent Evaluation	3.1. Subnational Governments
	4.2. External Audit	4.3. Forecast Reconciliation	3.2. Public Corporations
LOW IMPORTANCE	1.4. Coverage of Tax Expenditures	1.2. Macroeconomic Forecasts	2.2. Asset and Liability Management
	2.1. Frequency of In-Year Reporting	1.3. Medium-term Budget Frameworks	2.3. Guarantees
	3.1. Classification	1.4. Investment Projects	2.6. Natural Resources
	4.1. Statistical Integrity	3.1. Fiscal Policy Objectives	2.7. Environmental Risks

LEVEL OF PRACTICE	RATING			
	NOT MET	BASIC	GOOD	ADVANCED

Source: IMF, 2017

One of the countries that the IMF evaluated according to the new fiscal transparency regulation and published a report is the UK. Compared to other countries which were subject to general evaluation and a report is published, the evaluation notes of the UK are quite good. As a result of evaluation, the UK has met 9 of the 48 criteria in the regulation at the "Basic" level, 10 at the "Good" level and 23 at the "Advanced" level. The areas in which the UK is strong in terms of fiscal transparency practices are "fiscal reporting", as compared to other countries which are also evaluated on "fiscal risks".

The UK's fiscal transparency evaluation revealed that four criteria were not met. Unmet criteria are; "Timing of Annual Accounts", "Timing of Budget Documents", "Fiscal Policy Targets" and "Specific Fiscal Risks".

Russia's fiscal reporting and budgeting practices, which were evaluated according to the draft transparency regulation of the IMF in 2013, are generally rated at "Good" and "Advanced" levels, and considerable progress have been made over the past years in terms of disclosing and managing fiscal risks.

As a result of the IMF's fiscal transparency evaluation, Finland has fulfilled most of the criteria at "good" and "advanced" levels according to the fiscal transparency regulation. Some criteria for the analysis and management of fiscal risks are met at "basic" and lower level.

In the scope of the road map shown in Figure 3, for removing red areas it is critical, in the **"Short-term"**, to publish a revision document containing historical revisions of the fiscal reports issued by the government, to apply the supplementary budget provisions of Law No. 5018, to disclose any deviations from the MTP and MTFP, and in the **"Mid-term"** to increase the quality of citizen's budget. In the **"Long-term"**, it is critical that scenario studies on fiscal risks and publication of reports and appraisal of underground assets be carried out.

**Figure 3: Roadmap for Not-met Criteria**

	ACTION	RELEVANT CODE	CURRENT SITUATION	CONCLUSION
SHORT TERM	Publish a revision document containing historical revisions of the fiscal reports issued by the government	1.3.3 - Historical Revisions	NOT MET	BASIC
	Apply the supplementary budget provisions of Law No. 5018	2.4.2 - Supplementary Budget	NOT MET	GOOD
	Disclose any deviations from MTP and MTFP	2.4.1 – Independent Evaluation	NOT MET	BASIC
		2.4.3 – Forecast Reconciliation	BASIC	GOOD
MEDIUM TERM	Increase the quality of citizen's budget	2.3.3 Public Participation	NOT MET	BASIC
LONG TERM	Scenario studies on fiscal risks and publication of reports	3.1.1 – Macro-economic Risks	BASIC	İyi
		3.1.2 – Specific Fiscal Risks	NOT MET	GOOD
		3.1.3 – Long-term Fiscal Sustainability	NOT MET	BASIC
	Appraisal of underground assets be carried out.	3.2.6 – Natural Resources	NOT MET	BASIC

#### 4. Conclusion

The aim of the study was to focus on the red colours used in the fiscal transparency measurement map that the IMF has established for our country within the framework of the new regulation and to reduce the red colours in the current map and to take the fiscal transparency measurement to a further point. It is important to make progress in this framework in the following areas:

- ✓ To broaden the institutional scope of the fiscal reports in such a way to include all government agencies and to make an overall evaluation on the fiscal performance of the public sector,

- ✓ To make major changes to the budget appropriations within the year through a “supplementary budget” to be approved by the parliament, and thus, to ensure a tighter budget policy,
- ✓ Comparing macroeconomic figures estimates with independent estimates with the aim of increasing the reliability of economic and fiscal estimates,
- ✓ To publish an annual statement on annual macro-fiscal scenarios and certain fiscal risks, along with a medium-term fiscal risk assessment,
- ✓ Enhancing the quality of citizen’s budget which is currently being published in order to encourage policy-based and result-oriented deliberations on budget priorities,
- ✓ To take necessary steps with the aim of central supervision, approval and publicizing of the transactions for Public Private Partnerships,
- ✓ To change budget calendar in a way to ensure that the MTP and MTFF are submitted in spring, final accounts are submitted in summer and annual budget is submitted in early autumn, with the aim of providing the Parliament with sufficient audit capacity on each document,
- ✓ To classify the expenditures under the general level of the programs ad economic classification and to allocate appropriation on this basis, in order to encourage policy-based and result-oriented deliberations on budget priorities.

**Key Words:** Fiscal Transparency, IMF Fiscal Transparency Evaluation, New Fiscal Transparency Regulation

**JEL Code:** E62, H39, H83

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# The Shadow Economy is a Government Failure

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## The Aim of the Study

This paper represents a new approach to the shadow economy. It is different in methodology and its content.

### (1) The New Methods

(i) The methods are used in the existing literature of shadow economy is belong to Keynesian Economics: Keynesians are considering the state as the sole regulator of the market but the regulations are one of the main source of the Shadow Economy. The most of the books or articles that are already published in this field are either related to the measurement of the shadow economy and it's causes or the case studies on shadow economies and policies how to cure it.

The existing Literature which is dominated by Prof. Friedrich Schneider and his colleagues they belong main stream Keynesian Economics (Schnieder&Enste, 2000:77-114) and they also have support of the bastions of Keynesian institutions such as World Bank (Benjamin& Beegle& Santini, 2014), IMF or OECD. They look to the shadow economy with Keynesian glasses and according to them it is an economic illness which is curable with only government interventions or policies.

According to the Keynesians the government is the sole regulator of the market (Buchanan&Burton&Wagner,1978). Unfortunately the shadow economy is a complex phenomenon and it is the mixture of underdevelopment, rent seeking or populism, unemployment, excessive tax burden and regulations extra but at the end it is a 'government failure': And it must be analysed with the methods of 'Market Economics' or Austrian Economics because the shadow economy is an institution belongs to the market.

(ii) The existing literature also ignores that shadow economy is belong to the Global Economy. There are certain clues that shadow economy is a global institution. Tax heavens, human trafficking, crypto coins, cybernetic crimes extra point to the global economy. Shadow economy is not only a national economic phenomenon but it also covers the global World.

(iii) Lastly tax evasion method will be used for the measurement as an alternative MIMIC and others. At the end the shadow economy is a part of the economy so if estimate its size according to national income accounts and tax revenues statistics. It is impossible to measure the size of any hidden or secret object directly and accurately. It is better to develop an indirect method through the national income accounts and tax revenues statistics than any direct measurement.

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## The New Contents

(2) The content of the paper provides a new outlook to the shadow economy and it will try to built a bridge between theory of Economics and the Shadow Economy also: Because in the existing literature the shadow economy is an economic sickness and its cure belongs to the world of economic policies. The Keynesians sole concern of on the subject matter is the measurement of it and the policies towards to it without any theoretical road map. According to the researchers of shadow economy the main issue is measurement and thecauses are already a solved problem but their analysis has no root in the Theory of Economics.

Let me say what I want to arguerelated to the shadow economy and its roots in the Economic Theory:

The Shadow Economy is a government failure because if there is no state interventions to the market, there is no room for shadow economy in the market and its inefficient interferences which are casuses of the wasetfull resource allocation at the phase of economic development. A government failure refers the Second-Best allocation of resources due to the goverment interventions to the market. The reasons of the shadow economy in the modern global economy:

- (i) At the very begining of the economic development the factors endowment may be optimal i.e there are an unlimmited supply of labour (Lewis, 1954:13-191)but lack of capital and entrepreneurship. The unlimitted supply of labour invites the shadow economy because of chronic unemployment creates poverty and hunger and people have to survive any how.
- (ii) The market can correct this disturbed factors endowment at the phase of the econmic development. If the goverment intervenes the distribution of the economic surplus(Ricardo, 1821: 19-35.) in favour of the taxes against the savings the shadow economy is inevitable because of the chronic unemployemnt continues. The growing choronic unemployment or the reserve army contributes shadow economy. There is a connection between underdevelopment and shadow economy.
- (iii) The unemployed labour provide a shadow economy which represents majority of people or voters so the shadow economy has the political power but the formal market economy has the economic power. If the majority of voters (Hayek:1960a: 113-118) are not tax payers who are stationed in the shadow economy they create a political protection to the shadow economy and it becomes a legitimate sector in the economy according to the rule of law. If we look at the farmers in agricultural sector and artisans and small traders in service sector in Turkey they are tax free sectors in Turkey. The shadow economy an not exist any country without political protection.
- (iv) If the majority of voters belongs to shadow economy who are free riders but they hold political power and they claim income transfer under the social welfare services or according to social protection because they are either unemployed or

poor. Hence the tax burden on the market must increase the distribution of the economic surplus must be more and more in favour of the taxes and against the savings (Roncaglia, 2006:200-201). So with these rent seeking the shadow economy grows.

- (v) The growing unemployment and poverty in the shadow economy provide a climate for anti-market ideologies which advise either the state must intervene the market in radical terms or substitute it with alternative organisations such as mixed economy, planned mixed economy, statism, socialism or Islamic Economy. The alternative organisations of the market always produce a shadow economy where the consumers are free to choose or where there are economic freedoms.
- (vi) The social ethics or the religion may support subsistence standards of life and small is beautiful type business for the sake of keep the believers away from the misleadings of the market: So they can practice their religious duties regularly with ignoring the worldly pleasures. At the end the fuel of the market is egoism, greediness, interest seeking i.e. the *nafs* which is the Satan in the individual. This kind of social ethics has roots in the shadow economy. Yet they are not competitive against if any religion considers working is a praying (Dahrendorf, 2010: 11-21).
- (vii) The anti-market ideologies also begin to cultivate the shadow economy due to poverty and unemployment in favour of the terrorism (Warde, 2007:233-248) or radical movements. When the terrorism has a root in the shadow economy it creates its own illegitimate underground economy for financing its own expenses in terms of arms, ammunitions or personal expenditures. The terrorist organisations also set up its own tax collection authority and military recruiting office immediately.
- (viii) Of course the excessive regulations (Stigler, 1971:3-23), high tax and social security burdens, always increase the transaction cost in the market and it is a risk for the new comers to the market either as an entrepreneur or a worker. The risk avoiders in the economy may hide themselves in the shadow economy. The shadow economy is a training or test place for new entrepreneurs or workers who may immigrate from rural areas to cities. At the end if the average cost is higher than demand price in the market shadow economy is the only solution.
- (ix) Beyond this there are also criminal agents who are especially specialised on the soft crimes such as gambling, drugs, prostitution, human trafficking, betting etc. They create an underground economy for their illegitimate trades which depend upon the weaknesses of the human nature. If there is a demand there is always a supply. The help of the politicians, law and order men are necessary for the protection of these illegitimate trades or the underground economy.
- (x) Hence there is three story building in any economy. They are namely; underground economy, shadow economy and the market. An agency problem rises if there is a profit due to tax evasion and social protection in the shadow

economy. The tax officers and accountants of the tax payers even politicians also want to take their share from the this economic surplus as much as possible.

If we want sum up all these reasons: (1)Unoptimal factor endowment and unemployment, (2)inefficient distribution of econoomic surplus: Low level of savings, (3)the existence of free rider majority of voters in shadow economy provides its legitimacy, (4) the social protection as an supplement of income, (5)anti market ideologies,(6) anti market social ethics, (7) the soft crimes and underground economy,(8) terrorism,, (9) excessive regulations tax and social security burdens economy(10)the agency problem for benefitting shadow economy corrupts the tax system.

There are ten reasons for the shadow economy above but existing literature almost focusing on the two of them:(viii) underground economy and(ix)the high tax, and the heavy security burden with the cost of regulations. It is obvious at that their reference is developed or capitalist economies and both causes relatedmature market economies. Keynesian took the their own mature market economies for their reference about the shadow economy.

Let me say that the shadow economy according these expalanation isa problem belongs to the Market Economics but it has certain ties with the Economics of Development, Public Choice, Political Economy or Economic Organisations, Agency Problem, Keynesian Economics: Monetary and Fiscal Policies, Economics of Regulations, Theory of Taxation, Economics of Crime and Terrorism, the Economics of Social Ethics and Religions.The shadow economy is a very broad based problem an it is belong to global economy.

Although the government tried to cure the market failures but with all the reasons above the excessive interferences to the market creates govermnet failure and the shadow ecoomy is a result of them.

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# The Relationship between Economic Growth and Interest Rate: an Ampirical Evidence from Turkey

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Ahmet Gülmez<sup>2</sup>

## 1. Introduction

Economic growth represents a percentage increase in production relative to the previous turnover. Production in a country is also denoted as Real GDP growth, as shown by the Real GDP. Interest can be defined as the profit of the lender at the end of the maturity in the debt relationship. In a country, different interest rates arise at the same time depending on the timing and risk of the bond. In addition, there are many interest rates like interest rates paid by the banks to deposits, interest they apply to the loans granted by the banks, interbank interest rates applied by the banks in the debt relations among themselves, the rediscount rate applied when the banks borrow from the Central Bank, borrowing interest rate of the Central Bank, lending rate, policy interest rate. However, it is enough to select one of the interest rates types in scientific studies because interest rates usually move in the same direction.

According to economic literature, it is accepted that there is an inversely proportional relationship between interest rates and economic growth performance. This relationship is based on total demand, consumption, investment and net exports. Because, in an position where interest rates are high, households' consumption demands and business demands for investment are falling and economic activity is weakening. Investors who need financing for investment will give up investing if the interest rate is high. In addition, those who will invest in their hands will appreciate their savings instead of investing when the interest rate rises. In addition, the increase of the interest rate leads to the capital inflow to the country, leading to the fall of the exchange rate and the increase of the prices of the exported goods, the decrease of the prices of the imported goods, and thus the decrease of net exports. Economic growth is expected to increase due to the increase in consumption expenditures, investment expenditures and net exports when the interest rate falls. In this context, to question Turkey's recent history is important in terms of interest rates and economic performance.

## 2. Literatur Review

Saymeh and Orabi (2013), reached the following conclusions for Jordan in their study by the period of 2000-2010: all variables have long term equilibrium relationship, inflation causes interest rate, current interest rate has an influence power on growth rate, inflation rate has influence power on growth rate.

Jelilov (2016) investigated the relationship between interest rates and economic growth in the 1990-2013 period of the Nigerian economy. The results show that interest rate has a slight impact on growth; however the growth can be improved by lower the interest rate

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which will increase the investment and the investment has significant effect on the economic growth in Nigeria.

David H. et al. (2017) have reached the following conclusions in their study on commodity prices, interest rates and long-run analysis of economic growth: commodity prices Granger cause income and interest rates, while interest rates Granger cause commodity prices.

Lunsford (2017) has studied the relationship between real interest rate and total factor productivity growth in the separated period of 1914-2016. According the results of study a negative long-run correlation between productivity growth and real interest rates from 1914 to 2016 and there is a mix of negative and positive correlations that are generally close to zero subperiod from 1948 to 2016.

### **3. Methodology**

In this study, data sets of quarterly interest rates and economic growth rates of 2002-2016 were used. Interest rates are (i) the data set monthly consumer loans is the weighted average interest rate are taken from the Republic of Turkey Central Bank of the electronic data distribution system, economic growth rates (g) the data set are taken from Policies of the General Directorate of Statistics Ministry of Public Finance.

Variables were tested primarily with the Zivot-Andrews unit root test, which also takes into account structural breaks. The Gregory-Hansen cointegration test was applied to test the existence of a long-run relationship between variables. The causality relationship between economic growth and interest rates has been tested by the Toda-Yamamoto causality test.

### **4. Conclusion**

This study aimed to determine the presence and direction of the relationship between variables the interest rates and economic growth for the 2002-2016 year of quarterly in Turkey. It has been determined that both variables become stationary if the first difference is taken. It was also set as 2009: 4 for the economic growth data set and 2014: 1 for the interest rate data set are structural breaking dates.

The Gregory-Hansen cointegration test showed that there is a cointegration relationship between the variables. In addition, it was found that this relationship was broken in the period of 2008: 2.

According to the Toda-Yamamoto causality test results, it is concluded that there is a one-way causality relationship from interest rates to economic growth. Previous values of interest rates can provide predictions about the future values of economic growth. As a result, it can be said that policy makers need to pay particular attention to the interest rates for making policy about economic growth.

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# Analysis of Contingent Liabilities in Turkey

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## 1. Introduction

One of the conditions for governments to maintain a healthy public finance provides to analyze the possible risks that may arise in the future and to reduce it. In this context, the upward trend in contingent liabilities, seen in many countries, in recent years has become one of the important risk factors to be taken into account and monitored. The increase in contingent liabilities has the potential to lead to an increase in public debt and public deficits as well as a potential for fiscal transparency and moral hazard in the public sector. As in the world, it can be said to be an increase in contingent liabilities in Turkey. Therefore, the risks that contingent liabilities may create must be assessed in terms of Turkey. Moreover, it can be said that the number of studies carried out in these subjects is not much. Aim of this paper, draw attention to the increase, to make some determinations about the emerging fiscal problems and possible risks from contingent liabilities in Turkey. At first, the concept and types of contingent liability will be explained, following the analysis of contingent liabilities in Turkey it will be put out some data.

## 2. Concept and Types of Contingent Liabilities

Contingent liabilities are not directly related to the budget, the time and amount of realization is the result of certain events occurring outside the control of the government. Legal obligations or the responsibility of being a state and the public expectation are to necessitate public spending (Polackova, 1999:46). According to definition, the emergence of contingent liabilities depend on the occurrence of an event, that is, the condition. Contingent liabilities are divided into explicit and implicit contingent liabilities.

Explicit contingent liabilities are cases when the government has already committed to the contract, the state has to pay with the arrival of the occasion (Polackova Bixi & Mody, 2002:24). This obligation includes public guarantees arising from legal obligations.

The concept of public guarantees are the guarantees brought by the state to the debts of state entrepreneurs, public banks, local governments, private sector financial institutions and various entities other than the financial institution. On the other hand, governments can recognize various guarantees to public private partnership (PPP) to attract investors.

Implicit liabilities are not subject to any law or contract. It has to be fulfilled, because there are public expectations, political pressures and social state understanding. Natural disasters, financial crises and private sector debt except for government guarantees are the main examples. Unlike explicit liabilities, it is not possible for governments to monitor, report and

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supervise implicit liabilities. On the other hand, increases in the private sector debt stock constitute the exception to this situation.

Explicit or implicit public guarantees are contingent liabilities that give rise to unpredictable effects on public finance. Sometimes it is the elements that trigger a crisis, sometimes it makes the system's financial sustainability difficult in an existing crisis environment (Cangöz, 2001:1). For this reason, it is important for governments to take into account, to monitor, to report, and to publicly announce.

### **3. Analysis of Contingent Liabilities in Turkey**

When analyzing contingent liabilities in Turkey, it is considered that contingent liabilities are only explicit for two reasons. First, there was a need to limit the subject by its width. Second, explicit contingent liabilities are naturally more convenient to monitor, evaluate and analyze. Therefore, in the next part of the study, we will focus on explicit contingent liabilities in Turkey.

In Turkey, explicit contingent liabilities consist of guarantees both treasury and other public institutions. The treasury guarantees in practice are treasury repayment guarantee and treasury investment guarantee. While the treasury repayment guarantee expresses guarantees of treasury on foreign debts, the treasury investment guarantee implies the guarantees on PPP projects (Public Debt Management Report, 2017:33). On the other hand, there are guarantees for the PPP by various public institutions. In this context, while explicit contingent liabilities in Turkey are analyzing, guarantees for debt under treasury guarantees and guarantees for PPP projects will be discussed under separate titles.

#### **3.1. Treasury Guaranteed External Debt Stock**

In Turkey, the treasury guarantee is applied to the foreign debts of various public institutions and organizations and local governments. On the other hand, in the private sector, it is the guarantee of treasury guarantees on foreign debts of financial and non-financial institutions. Turkey's Treasury-guaranteed foreign debt stock, between the years 1990-2016, is shown in table 1 below. In the post-global crisis period, treasury guaranteed external debt stock is showing an increasing tendency. Guarantees to foreign debts of public banks are the biggest shareholder in the increase.

**Table 1:** Treasury Guaranteed External Debt Stoku (Million, USD)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>PUBLIC</b>	<b>6643</b>	<b>6911</b>	<b>6495</b>	<b>6977</b>	<b>7265</b>	<b>7088</b>	<b>7073</b>	<b>6643</b>	<b>6541</b>	<b>6466</b>	<b>6667</b>	<b>6054</b>	<b>6101</b>	<b>5497</b>	<b>4486</b>	<b>3158</b>	<b>2.281</b>	<b>2.419</b>	<b>2.780</b>	<b>3.435</b>	<b>4.393</b>	<b>5.205</b>	<b>6.373</b>	<b>7.300</b>	<b>7.740</b>	<b>8.317</b>	<b>9.201</b>
General Management <sup>3</sup>	1923	1997	1654	1918	2514	2927	3261	3108	3069	2807	2669	2222	2067	1803	1495	1098	1.022	1.004	1.217	1.279	1.327	1.223	1.164	1.114	939	1.089	987
Non-Financial Institutions	3.555	3.508	3.205	3.381	3.260	2.835	2.737	2.812	2.980	3.234	3.587	3.488	3.594	3.281	2.685	1.873	1.180	1.242	1.242	1.280	1.187	1.162	1.214	1.158	989	858	803
Financial Institutions	1.165	1.406	1.637	1.678	1.491	1.326	1.076	722	492	425	410	344	439	413	306	186	79	172	320	876	1.880	2.821	3.994	5.028	5.812	6.370	7.411
<b>PRIVATE</b>	<b>600</b>	<b>588</b>	<b>577</b>	<b>636</b>	<b>611</b>	<b>524</b>	<b>395</b>	<b>204</b>	<b>110</b>	<b>98</b>	<b>64</b>	<b>57</b>	<b>178</b>	<b>348</b>	<b>805</b>	<b>1.157</b>	<b>2.021</b>	<b>2.452</b>	<b>2.932</b>	<b>3.183</b>	<b>3.113</b>	<b>3.160</b>	<b>3.379</b>	<b>3.507</b>	<b>3.416</b>	<b>3.182</b>	<b>3.094</b>
Non-Financial Institutions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	161	532	409	296	187	96	38	12	1	0	0	0
Financial Institutions	600	588	577	636	611	524	395	204	110	98	64	57	178	348	805	995	1.489	2.043	2.637	2.996	3.017	3.121	3.367	3.506	3.416	3.181	3.094
<b>TOTAL</b>	<b>7.242</b>	<b>7.499</b>	<b>7.072</b>	<b>7.614</b>	<b>7.876</b>	<b>7.612</b>	<b>7.468</b>	<b>6.847</b>	<b>6.651</b>	<b>6.563</b>	<b>6.731</b>	<b>6.111</b>	<b>6.279</b>	<b>5.845</b>	<b>5.291</b>	<b>4.314</b>	<b>4.302</b>	<b>4.871</b>	<b>5.712</b>	<b>6.618</b>	<b>7.506</b>	<b>8.365</b>	<b>9.751</b>	<b>10.807</b>	<b>11.157</b>	<b>11.498</b>	<b>12.295</b>

**Source:** Treasury Undersecretariat and public debt management reports.

<sup>3</sup> Refers to the guarantees imposed on foreign debts of institutions within the scope of central government, local administrations and funds.

### 3.2. Public Private Partnership Projects

Various guarantees in PPP projects in Turkey are applied in order to increase the participation of investors in the projects. From 1986 onwards, 211 KÖİ projects with a total investment of US \$ 53.7 billion at 2017 prices have been implemented, including 182 dedicated enterprises and 29 construction projects. The total contract value of these projects is US \$ 123.5 billion at 2017 prices (Kamu Özel İşbirliği Raporu 2016, 2017;13). Table 2 below shows PPP investments over the years. Although it is not stable, it can be said that in recent years, investments in the PPP have increased. Some of these investments have been granted various public guarantees. Such guarantees are provided by other institutions such as Undersecretariat of Treasury and General Directorate of Highways (KGM), State Airports Authority (DHMI), Ministry of Health.

**Table 2:** Distribution of PPP Projects by Years

Years	Project Numbers	Project Investment Amounts	Contract Value of Projects
1986	1	4.485.262,28	4.485.262,28
1987	1	19.121.487,14	19.121.487,14
1988	0	0	0
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	1	17.543.009,27	17.543.009,27
1993	3	2.045.915.665,79	2.045.915.665,79
1994	7	16.116.512,19	16.116.512,19
1995	1	1.391.262.727,00	1.391.262.727,00
1996	11	895.035.642,02	912.203.285,98
1997	9	643.669.302,10	827.363.941,74
1998	11	2.838.967.090,36	2.882.417.383,25
1999	12	2.045.463.515,21	2.321.465.480,61
2000	4	41.419.992,00	43.672.670,54
2001	6	1.444.440.200,48	1.465.298.463,14
2002	0	0	0
2003	8	58.060.038,50	137.907.364,28
2004	6	582.974.775,90	582.974.775,90
2005	4	713.147.873,94	4.879.420.722,24
2006	6	24.811.410,77	71.305.542,34
2007	9	362.010.302,12	5.014.471.627,62
2008	8	753.113.470,92	4.586.487.961,27
2009	4	142.161.112,20	2.756.297.456,80
2010	13	7.193.860.918,21	10.428.641.825,61

<b>2011</b>	14	1.943.583.609,17	3.228.965.207,46
<b>2012</b>	8	2.547.681.992,97	2.548.215.546,09
<b>2013</b>	36	24.152.853.140,90	70.197.728.722,05
<b>2014</b>	14	2.556.925.703,74	5.645.805.313,51
<b>2015</b>	5	779.845.421,80	1.349.568.606,24
<b>2016</b>	13	3.987.235.943,12	5.222.727.264,93
<b>2017</b>	10	4.455.847.920,46	6.270.758.846,24

Source: Ministry of Development

Guarantees issued by the Undersecretariat of Treasury are treasury investment guarantee and debt undertaken commitments. Under the Treasury Investment Guarantee, 17 projects have been implemented between 1997 and 2004. At that time this turnover was the end of the investment guarantee period of 6 projects. All of the projects are in the field of energy. The recognized guarantees are related to the purchase of the produced energy (Public Debt Management Report, 2017:34). In recent years, instead of providing a Treasury Investment Guarantee, it is committed to undertaking debt (Emek, 2017a). Table 3 below shows the commitments undertaken by the Undersecretariat of Treasury to debt undertaken commitments for the PPP projects.

**Table 3: Debt Undertaken Commitments**

Table of Debt Undertaken Commitments				
Project Name	Models of PPP	Date of Debt Undertaken Commitments	Total Project Cost (US Dollars)	Loan Amount (US Dollars)
Eurasia Tunnel	<u>Build-Operate-And Transfer</u>	11.12.2012	1.239.863.000	960.000.000
Gebze-Orhangazi-İzmir (including İzmit Körfez Transit and Connection Roads) Highway	Build-Operate-And Transfer	05.06.2015	6.312.392.047	4.956.312.328
Northern Marmara Highway Odayeri-Paşaköy (3rd Bosphorus Bridge Including) Segment and Additional Works	Build-Operate-And Transfer	First Finance 13.05.2014	2.927.413.140	2.318.000.000
		First Finance 11.03.2016	528.831.099	420.000.000
TOTAL			11.008.499.286	8.654.312.328

Source: 2017 Public Debt Management Report.

Major projects in the infrastructure projects, such as Eurasia Tunnel, Yavuz Sultan Selim Bridge and Osmangazi Bridge, has been awarded by KGM the annual vehicle transit guarantee for the undertaking of the project. If the committed number of vehicles is not reached, the difference between the committed and actual number of passes is paid by the KGM over the US dollar.

There is a similar mechanism in DHMI guarantees. Zafer Airport, which serves Kütahya, Afyonkarahisar and Usak provinces and 3rd Airport which the continues to build in Istanbul are PPP. The company undertaking the construction of the project was given an annual passenger guarantee. If the number of committed passengers can not be reached, the difference between the committed and actual number of passengers is paid by DHMI over the US dollar.

PPP projects in Turkey in recent years, the field of health has also begun to be applied widely. The city hospitals built in this scope are also the PPP project. According to the Public Private Partnership Report 2016 (2017; 24), in Turkey, there are 18 city hospitals, 16 of which are in construction stage. One of the guarantees given to the firm that undertakes the construction of the city hospital by the Ministry of Health is 70% of the total number of beds. In addition, from the Ministry of Health and hospital revolving fund budget, two kinds of fees are paid, consisting of the facility usage and the support service fee for the private partner (Emek, 2017b).

#### **4. Risks and Possible Problems of Contingent Liabilities**

Fiscal sustainability is at the forefront of the problems caused by contingent liabilities. Recognized guarantees are likely to be turned into public debt by firm failure or by the economic conjuncture gaining momentum downward. As a matter of fact, these guarantees have experiences of countries which have caused important problems in the past periods. (The World Bank, 2009: 2). Especially during the financial crisis period, the rescue of the banks and the nationalization of the debts were seen in 2008 global crisis and European debt crisis (Hofmans and Coevering, 2014: 36).

Another problem caused by contingent liabilities is that the recognized guarantees create a moral hazard problem. Explicit or implicit guarantees may be a way of encouraging firms to over-risk behaviors, or it may be possible for politicians to use these guarantees in the light of political interests (Polackova, 1999: 46). On the other hand, it should be emphasized that contingent liabilities are a contradiction to financial transparency (Turan, 2014: 10).

#### **5. Conclusion and Evaluation**

In this study, contingent liabilities increase in Turkey. It was found that this increase coincided with the global economic crisis era. It is estimated that in the emergence of this situation is affected by sharing the burden of expanding fiscal policies and infrastructure investments with the private sector and thinking of hiding increases in public debt and the idea of reducing and facilitating outsourcing in an environment of confidence lost after the crisis. However, it should be stated that; although borrowing

under public guarantee reduces interest costs, it is still at a higher cost than the direct debt of the state.

The increase in liabilities in future periods conditional on Turkey is likely to lead to a significant increase in public debt. This is actually a welfare transfer between generations and can be seen as a matter of transferring the current debt burden as a tax burden on future generations.

Another finding is that the recognized guarantees are presented in a highly dispersed manner by different institutions. It is seen that there are guarantees of more than one institution, especially for a project in the PPP projects. Although it has not been addressed due to the constraints of the work, the legislation on the projects of the PPPs is also quite fragmented. On the other hand, sharing of information about the tender conditions and financial burden of these projects is limited. Provision of all explicitly contingent liabilities, including guarantees to PPP contracts, by a single entity, to be displayed collectively in public debt management reports and to be shared with the public will be beneficial in terms of financial transparency and financial sustainability.

**Keywords:** Debt Management, Contingent Liabilities, Public Guarantees, Public Private Partnership

**JEL Code:** H63, H68, H74

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## **Fiscal Discipline and Fiscal Institutions: Their Relation with Power of the Purse**

**Tülin Altun<sup>1</sup>**

### **1. Introduction**

Following the 2008 global economic crisis, expansionary monetary and fiscal policies were applied in many countries. In order to facilitate economic growth and to ease the effect of the crisis, governments took a wide variety of precautionary measures. The issue of fiscal indiscipline also found itself at the fore of discussion. These developments in the fiscal arena led to an increase in academic literature examining the role of both fiscal rules and of fiscal institutions in facilitating fiscal discipline. Fiscal rules serve to expedite fiscal discipline in the long term and economic stability in the short term. However, the success of a fiscal rule ultimately depends on whether it is designed in such a way that fits the economic developments at hand and on following up on whether or not the rule is being followed. Fiscal institutions operating independent of political will play an important role both in the design and monitoring of rules. However, such factors as fiscal institutions' degree of authority and independence must be taken into consideration when discussing power of the purse. In this study, fiscal institutions are examined based on related theoretical and empirical literature. Fiscal institutions have been divided into two categories, i.e., independent fiscal institutions and fiscal councils, and then evaluated. It is asserted that each type of institution affects power of the purse in countervailing directions.

### **2. The Role of Fiscal Institutions in Facilitating Fiscal Discipline**

The basic objective of fiscal policies is to facilitate economic stability against cyclical fluctuation in the short term and fiscal discipline in the long term. Policy makers can facilitate economic stability in the short term by running budget deficits and surpluses based on economic trends without increasing public debt accumulation in the long term. However, several OECD countries ran continuous budget deficits during the 1970s and 80s in particular, which resulted in the sustainability of public debts to come under risk. This increase in fiscal indiscipline caused the effectiveness of voluntary fiscal policies to be questioned. A number of political economic models in which politicians seeking political gains exhibit fiscal behaviors under the social optimum were developed. One part of the related literature made fiscal rule recommendations stating that the effect of political factors harming fiscal discipline should be limited. The number of countries subjecting fiscal policies to rules began to increase starting in

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the 1990s. In these countries, numerical targets were defined for the fiscal indicators chosen. However, the disadvantages of fiscal rules on voluntary policies began to be subject to discussion. According to Milesi-Ferretti, fiscal rules can be “good, bad, or ugly.” Fiscal rules are “good” to the extent that they are able to force governments that disregard fiscal discipline and that have deviated from the social optimum to observe appropriate fiscal behaviors. They are considered “bad” to the extent that they impede countercyclical fiscal policies from being implemented and automatic stabilizers from working, and they are “ugly” to the extent that they lead to creative accounting practices (2003).

When fiscal rules are defined as basic numerical targets, political will may be limited. However, when fiscal rules are strict, they cause economic developments to be incapable of providing returns. Fiscal policies may become procyclical. Even worse, strict fiscal rules may lead to creative accounting practices. In such a case, political manipulation over indicator variables increases and democratic accountability mechanisms are harmed. Flexible rules, on the other hand, are not capable of mitigating the negative effects of political factors. This tradeoff between strict and flexible fiscal rules has brought to the fore fiscal institution recommendations for the effective application of fiscal rules. Similar to central banks assuming an independent role in rule-based monetary policies, it is recommended that some powers be delegated to unelected authorities in fiscal policies. Fiscal institution recommendations can be assessed in two different categories based on which fiscal powers are to be assigned to unelected authorities. Transferring the authority to define long term fiscal goals and short term numerical fiscal targets to unelected bodies represents the ultimate extent of fiscal institution recommendations and such bodies are designated as independent fiscal institutions. Another recommendation is fiscal councils, which, unlike independent fiscal institutions, do not designate policy targets, and act instead as an independent observation mechanism assessing the fiscal situation.

### **3. Independent Fiscal Institutions and Power of the Purse**

Unlike monetary policies, the transfer of fiscal decisions to unelected authorities constitutes an infringement against power of the purse. With the declaration of the Magna Carta in 1215, the ensuing power of the purse understanding developed over time, eventually becoming an inseparable part of democratic political systems. In democratic countries, citizens exercise their power of the purse through political representatives. The transfer of fiscal powers to unelected individuals or institutions may impede constituents’ fiscal preferences from turning into political decisions. The ability of unelected bodies to designate long term fiscal targets and short term numerical fiscal targets is, in the context of power of the purse, unacceptable. In democratic systems, citizens convey their preferences to political powers through elections. Which commodities and services are to be offered publicly, which taxes are to be collected, how expenditures and tax components are to be calculated, and other similar fiscal decisions are expected to reflect constituents’ preferences. However, constituents’ preferences are not homogenous; their fiscal preferences are affected by age, gender, income, education level, and other similar socio-economic factors. For

instance, while some constituent groups give priority to educational services, others may prefer increases in expenditures related to health services. Constituents may want taxes to be either progressive or proportional and either direct or indirect. As such, just as is the case for monetary policies, it is impossible to speak of an ideal fiscal policy accepted by everyone. Furthermore, every fiscal decision that is to be made results in the redistribution of incomes and economic resources. While some citizens attain fiscal rent, others are subject to fiscal exploitation. Policymakers' ability to obtain the optimal balance between equality and efficiency depends on how they compromise between different constituents' preferences. In the event that fiscal decisions are transferred to unelected bodies, whether the fiscal results desired by society are realized is a heavily debated issue (Debrun et al., 2009, Alesina & Tabellini, 2007).

#### **4. Fiscal Discipline and Fiscal Councils**

Both normative and positive hurdles exist in transferring fiscal decisions to independent fiscal institutions. Regarding just what the ideal fiscal policy is, due to a lack of consensus (a normative hurdle) and due to the consequences of redistribution caused by fiscal decisions (a positive hurdle), no country with an independent fiscal institution can be found. In addition to this, several studies in the related literature assert that a specific type of fiscal institutions, namely fiscal councils, can facilitate fiscal discipline without harming power of the purse. Fiscal councils function as an independent observation mechanism assessing the fiscal situation. As such, the basic objective of fiscal councils is to increase budget transparency and to act as an accountability mechanism.

Persson et al. (1997) define political constitutions as incomplete contracts. In democratic systems, constituents temporarily transfer their decision-making authority to government officials. Due to asymmetric information, the principal-agent relationship between constituents and politicians may cause this authority to be abused. Fiscal councils are recommended as an institution able to solve the asymmetric information problem that exists between politicians and constituents (Debrun, 2011). Debrun et al. (2009), Debrun and Kumar (2007), Elbadawi et al. (2015), and Wyplosz (2005) point to the importance of fiscal councils in fiscal rules' efficiency and fiscal policies' success.

Fiscal councils have six basic duties, namely: (i) monitoring fiscal policy and fiscal rules, (ii) appraising fiscal decisions, (iii) making budget and macroeconomic projections, (iv) analyzing the long term sustainability of public finances, (v) ensuring fiscal transparency, and (vi) making normative recommendations related to fiscal policy to politicians (European Commission, 2014:57). Fiscal councils assist in ensuring that macroeconomic designs are unbiased, in boosting coordination between fiscal policies, and in preventing manipulation on the part of politicians. Due to their being an independent observation mechanism, transparency is increased, documents in the budget process are shared with the public at a higher rate, and the quality of budget projections is raised. Furthermore, independent fiscal institutions support macroeconomic stability and sustainability by making budget plans, analyzing plans' implementation, and offering recommendations (Debrun et al., 2009).

However, fiscal councils' functionality depends on several important characteristics. Kopits (2011) describes these characteristics as follows:

- Local needs must be addressed.
- Political will must be independent, technically competent, and accountable.
- Employees must be hired through open competition.
- The fiscal situation and the sustainability of loans must be analyzed and long term scenarios must be prepared based on macroeconomic and demographic projections.
- Public support must be gained.
- Effective communication channels, especially with the media, must exist.

## 5. Conclusion

Analyses linking the source of fiscal indiscipline to political reasons state that fiscal rules limiting voluntary policies can solve the fundamental problems at the core of public finances. These problems can be categorized into five categories, namely: (i) shared pool problems, (ii) the asymmetric information and the principal-agent problem, (iii) short-sightedness and time inconsistency, (iv) political competition, and (v) political interactions and external factors. However, there are still political hurdles impeding fiscal rules from overcoming these problems. In the end, it is politicians who decide the targets of fiscal policy and who place related numerical targets. It is therefore possible that politicians might break the rules by making unwise fiscal decisions in the hope of obtaining political gain or through creative accounting practices. Although both bodies have the potential to contribute to fiscal discipline, independent fiscal institutions considerably harm power of the purse. Fiscal councils, however, have the complete opposite effect. Fiscal councils assess whether politicians have deviated from their promised targets, provide explanations to the public, and increase fiscal transparency. In this way, the asymmetric information problem between politicians and constituents is alleviated, thereby strengthening power of the purse.

**Keywords:** Power of the Purse, Independent Fiscal Institutions, Fiscal Councils

**JEL Codes:** E62, H60, H61, H62

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## **The Applicability of the Rules of Correction against Tax Mistakes in the Order of Payments of Public Claims in the Extent of Tax Procedure Law**

**Salim Ateş Oktar<sup>1</sup>**

**Yasemin Taşkın<sup>2</sup>**

### **1. Introduction**

The affair of whether or the tax mistakes in order of payments of public claims in the extent of Tax Procedure Law can be corrected by the ways of tax correction and application to higher authorities or not has been disputed. For there is not a clear rule in the approaches on the axis in the Law on Procedure of Collection of Public Claims and is not exist any reference for Tax Procedure Law the opinion of the ways of revision of tax mistakes and application to higher authorities is closed has been widely adopted. Although rejecting of the correction demand of tax mistakes and application to higher authorities are administrative acts can be brought to judicial authorities, because order of payments is an act of collection and it can be only possible to bring the legal conflict to the jurisdiction only if a debt was not exist or was paid partially or was prescribed, have been supported this opinion.

On the other hand, besides these rules of Law of Procedure of Collection of Public Claims in the article 126 about prescription for correction of tax mistakes of Tax Procedure Law, have placed the rules of tax mistakes in order of payments also can be corrected. As a natural result of those rules is in case demand for correction of tax mistakes or application to higher authorities have been rejected by tax administration bringing the conflict to the jurisdiction will be legally possible.

In this presentation it will be discussed whether the rules of correction of application to the higher authorities in tax mistakes defined in the article 116, 117 and 118 exist in the order of payments have been implemented or not.

### **2. Discrimination of Tax Mistakes and Legal Conflict**

Despite the tax mistakes one of the reason of legal conflicts there is a crucial difference between a legal dispute and legal conflict (Öncel vd. 2017: 176-177). In general mistake means an unintentionally behavior but to define correctly the real meaning of tax mistake it is necessary to look up the Articles of Tax Procedure Law about mistakes.

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When it is look up the mistakes are defined in the Articles 116, 117 and 118, can be seen that they are accepted by everyone as defects which mustn't exist in legal system separately any interpretational difference (Aksoy, 2010: 113). They are accepted by everyone as defects which must not exist in a legal system separately any interpretational difference. Everyone has compromised on the subjects of two plus two can not be six, it can not be requested the tax from (b), while taxpayer is(a), it is not possible current year as the taxation period while it is last year so, in those cases or similar cases a legal conflict does not occure or should not occure. On the other hand, some other cases such as which expenses would be deducted, the meaning of existing in assets of firm for the practice of participation stock rules how it would be established the relationship between the complete succession/liabilities of partners in limited partnerships strongly probable different approaches and interpretations to be made and so emerge legal conflicts.

### **3. Correcting Tax Mistakes and Refund as a Privileged Way**

When examined the tax mistakes have been counted in Tax Procedure Law, it could be easily seen that they have been mistakes unhesitantly. Without any doubt, there are many other mistakes have alone in taxation transactions besides the tax mistakes are counted in Tax Procedure Law. On the contrary, tax correction way don't valid for the mistakes apart from seven tax mistakes counted in Tax Procedure Law. The reason of that the tax mistakes specifically counted in Tax Procedure Law have a widely agreement on their feature of definite faults independently of every kind of interpretation; but don't exist that kind of agreement for the external mistakes. Therefore, legislator has accepted a time period as long as assesment prescription to remove those clear tax mistakes from the system.

### **4. The Extent of Correction and Prescription**

The subject of research here is it the order of payments for public claims in the extent of Tax Procedure Law are subject to the limitation in the Article 58 titled 'Objection to the Order of Payment' of the Law on Procedure of Collection of Public Claims or not. In general, addressee of order of payment can bring the conflict onto the judicial authorities if the debt is not exist or is paid partially or was prescribed according to the Law on Procedure of Collection of Public Claims. However, it must be accepted that rules in the Articles 116-126 of the Tax Procedure Law are exceptions to the Law on Procedure of Collection of Public Claims in sues and application corrections. Then in this case there is a difference in interpretation and approach between parties intead of a tax mistake. Removes mistakes by correcting in a principal necessity of the law state principle. Hence, while application time limits are generally fifteen or thirty days in some legal ways such as opening a case, demanding compromise, demanding deduction in penalties application for correction of tax mistakes or implementation of the correcting process defined as a long period as long as prescription of assesment. In some exceptional cases this period can be lengthened out. It can be seen that those

cases which are defined in the Article 126 of the Tax Procedure Law prescription in correction of tax mistakes has no upper limit.

## **5. Rejection of the Request of Correction and Application to Higher Authorities and Legal Characteristic of Cases Against Decisions of Rejection**

As a general rule, opening a case against order of payments is not possible except the situations of the debt was not exist or was paid partially or was prescribed. Although the general rule is so on one hand the term not existing a debt can be understand in different ways, on the other hand, it has been discussed if it is possible to go to the court in case of rejection of correcting tax mistakes defined Articles 116, 117 and 118 of Tax Procedure Law or applying to higher authorities or not (Şimşek, 1996: 528). The conflicts on exclusions, exemptions and deductions, defining tax base, calculating tax amount and taxation and other subjects can be realized as 'a debt does not exist'(Gerçek, 2017: 228) (Çelik, 2018: 206). Because this topic is not in the extent of this paper, it will not be discussed here.

It will be helpful being discussed this subject which has not been examined enough so for both public benefit and taxpayer rights.

Notify of order of payment is a collection act. If a divergence is exist on the matters emerging, defining and realizing of public claims, is necessary to demand these claims before their becoming final or even before realizing. There is not any doubt on this question, but if that claim is one of the claims of the Tax Procedure Law there will not be any restraint to be requested correcting the tax mistakes and also applying to higher authorities. Tax mistakes, are problems must be removed from the system even just for the meaning of the word 'mistake' (Oktar, 2017: 158). While durations opening a for case at the tax court, demanding compromise, requesting deduction from the penalties have assigned as periods not exceeding thirty days, it has defined as long as prescription period for correction of tax mistakes and applying to higher authorities shows the will of the rulemaker.

It can be clearly understand from the letter of the Article 126 of the Tax Procedure Law that it is possible to demand correction for order of payment and even for attachments. When it will be defined the private law among those two, if the rules of legal representatives of both acts and case law were compared. It has been realized that the Article 126 of Tax Procedure Law has private rules on the subject (Karakoç, 2017: 114-115).

In a decision of General Assembly of Tax Courts of Council of State, declared that the way correction of tax mistakes and applying to higher authorities did not extent the acts for the securitas or collecting claims, order of payment had been one of the acts established at the stage of collection for mature credits, therefore, the ways of correction and applying higher authorities were closed against order of payments.

When examined of the decisions of the authorized tax court and the General Assembly of Tax Courts and dissenting opinions have been seen that an agreement hasnot been exist among the jurisdiction<sup>3</sup>.

## 6. Conclusion

There is not any doubt about order of payments will be noticed in the extent of the Article 55 of the Law Procedure of Collection of Public Claims could be demanded correcting tax mistakes and applying higher authorities. The Article 126 of Tax Procedure Law states that clearly. The question must be solved here is which act would be generate the subject of the case: act of order of payment or as a new act reject of the demand for correction of tax mistakes. Even if order of payment has consisted an act of collection for the public claims aside from the Tax Procedure Law, the claims in the extent of Tax Procedure Law, when tax mistakes exist, has had a taxation act. Since the rejecting of demand of correcting mistakes and the case a different and new administrative act, those rejecting acts, must not subject to the limitations for case reasons of the order of payments regulated in the Law on Procedure of Collection Public Claims.

**Key Words:** Public Claims, Correction in Tax Mistakes and Applying to Higher Authorities, Order of Payment, Tax Law, Tax Enforcement Law.

**JEL Codes:** H20, K34, K39.

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<sup>3</sup> For similar decision look at Sadık Kırbaş (2015) , *Vergi Hukuku, Temel Kavramlar, İlkeler ve Kurumlar*, 20. Edition, Ankara. Siyasal Kitabevi.



# The Causes, Consequences and Recommendations of Self Employed of Undeclared Earning to the Social Security Institution

Hülya Kabakçı Karadeniz<sup>1</sup>

Oğuz Karadeniz<sup>2</sup>

## 1. Introduction

Those who are taxpayers of real or simple income tax due to commercial gain or self-employment gain, company partners, according to Social Insurance and General Health Insurance Law No. 5510 (Article 4/1 / b), they are considered as compulsory insurance holders. Self-employed, pays the social security premium over the amount that they determine between the lower limit and the upper limit of the base earnings. Significant differences exist between the actual earnings of the insured and the principal benefit of the insurance premiums paid. As of 2016, 90% of self-employed report their earnings on minimum wage (SSI, 2016). The situation mentioned leads to SSI (Social Security Institution) premium losses, while insurers cause low pension. General health insurance premiums create a situation against wage earners (workers and civil servants) whose earnings have to be reported on real wages. In other words, the general health insurance premiums of self-employed are financed by employees who pay a premium over the minimum wage. In the first part of our study, the undeclared earning were calculated comparing the earnings reported by the Revenue Administration (RA) to the SSI and from the Micro Data Set (2015) of the TURKSTAT Income and Living Conditions survey. In the second part, the causes and consequences of the undeclared earning statement are examined. In the conclusion, we propose solutions to prevent the undeclared earnings.

## 2. The Estimation of the Undeclared Earning of the Self Employed

### 2.1. The Method and The Data Sets

For estimating undeclared earnings declaration of self-employed earnings amounts reported to SGK (SGK, 2014), Earnings after paying income tax of RA (IO 2014), TURKSTAT Income and Living Conditions (2015) As of 2014, the annual earnings of employers and self-employed persons have been compared.

### 2.2. Assumptions and Constraints of Study

The agricultural sector is excluded from the scope of the study in order to be able to make comparisons. The weighted average of the earnings reported to SSI by earning groups was

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taken. The net income of the taxpayer is calculated after deducting the income tax to be paid from the tax base reported to the Revenue Administration. the average earnings of those registered to the SSI from the employer and self-employed as of 2014 were calculated from the TURKSTAT Income Survival Survey Micro Data Set. The SSI contribution was deducted from the declared earnings by 34.5% and net income was obtained. Another limitation of the study is that in 2014, self-employed whose earnings are more than 6.5 times the annual minimum wage are considered in the calculation. Presidency of Revenue Administration and TURKSTAT also include insured persons who retire and continue to work and who do not have any obligation to pay premiums.

### 2.3. Estimation of Undeclared Earning

The average net earnings calculated for TURKSTAT, Revenue Administration and SSI registry self-employed are given in table 1. As can be seen from the analysis of the table, there are about two times differences between the earnings reported to SSI and the Revenue Administration and there are four times differences the earnings determined according to TURKSTAT questionnaires between SGK statistics.

In a study conducted by comparing the data of 2010 the TURKSTAT Household Budget Survey, SSI and RA data, four times differences were found for employer and two times in terms of self-employed persons between TURKSTAT figures and SGK figures . The earnings declared to the Revenue Administration are about 50% higher than the earnings reported to SSI (Ministry of Development, 2014: 28-29).

**Table 1. The average net earnings calculated for TURKSTAT, Revenue Administration and SSI registry self-employed (TL), and The Number of the Self Employed, (2014)**

Data Source	Net Earning	Number s
SGK (Average Earnings per Insured)	9933	2078678
Revenue Administration (Average Earnings per Taxpayer)	17233	1842212
TURKSTAT (Average Earnings of Employees and Self Employees)	37049	1962024

Source: SGK, 2014, IOP, 2014 and TURKSTAT 2015 calculated by the authors.

### 3. The Causes and Consequences of Undeclared Earning to SSI

The one of the most important reasons for the undeclared earnings is that there is no mechanism to control the statement. In the year 2008, when the law came into force, there was a provision that the employers, contibution base cannot be less than thirty times the maximum daily earnings of the their insured employes. This provision was not checked by SSI between 2008 and 2014. In 2015, the SGK has checked the provision, and it seems that it has borrowed 550,000 self-employed (Kurt, 2015). This provision was abolished from the enforcement with the amendment made by Law No. 6645 in 2015 owing to insured complaints. The removal of the provision has relieved the retirement premium borrowers. In addition, the problems of the self-employed who earn less than their own employees were

solved. However, a new control mechanism has not been introduced in place of the removed regulation. The self-employed are less likely to pay premiums. Moreover, it can be said that self-employed do not have enough information about the benefits of high earnings declaration in their retirement. Even a pharmacist who has paid a very high income tax over the years may choose to pay his/her contributions on minimum wage.

What are the consequences of undeclared earning report to SSI? The first of these is the SSI's insurance premium losses. If only the income declared to the revenue administration as of 2014 and the tax paid profit is taken into account, an annual loss of SSI 5 billion in premiums will be prevented.

In order to calculate the net income effect of the high earnings declaration on the public finance, it is necessary to reduce the social insurance premiums paid from the income tax base.

The premium of TL 2.5 billion paid under the assumption that the premium collection rate is 50% will be deducted as an expense. Under the assumption that the effective income tax rate is 20%, taxpayers will pay 500 million TL less. Thus, an annual increase of SGK of at least 2 billion TL would be possible. According to TUKSTAT figures, average earnings and reported to SGK there is about four times the difference between average earnings. The increase in income tax and social security contribution revenue to be provided by the measures to be taken in the framework of recording the informal economy may be much higher.

Another drawback of the missing earnings statement is the point of redistribution of income. Employees and civil servants whose premiums are reported on actual amounts will contribute more to the system with respect to general health insurance and pension premiums. The paying contributions over real amounts may increase wage pensions for the wage earners. However, there is no relationship between contribution paid for general health insurance and health care received. In this case, the health costs of the insured, who do not report their earnings on the actual amounts, remain on the payers, which also incur a large income tax burden.

Another negative consequence of the declaration of undeclared earnings is that self-employed are faced with the risk of getting old age poverty and low old-age pensions in their retirement. The situation also raises the complaints about low pension the demand for pension amounts increases. Old age pension increases without premiums also result in negative for way insureds paying premiums on time and on real amounts.

#### **4. Conclusion**

The earning amounts reported of self-employed to SSI about one quarter of their real earnings. While the situation mentioned causes the SSI's income losses, it creates a situation against the paid insured who pay their premiums over the actual amounts. The self-employed income taxes on real wages and insurance premium payments depend on effective struggle with the informal economy. However, even in the short run, taking into account the income tax base reported to the revenue administration by taking into account the upper limit of the contribution base income in the determination of the premiums of the independent workers, could increase the premium accrual rate (Black Sea, Kabakçı Karadeniz, 2014, Ministry of Development, 2014: 29). The proposed system also has a place

in comparative law. For example, in Austria and France, professional income subject to income tax is taken into account when calculating the contribution base of self-employed (MISSOC, 2017 / a-b).

The campaigns should be arranged to inform the insured in order to avoid the declaration of missing earnings, which is the positive relationship between the paid contribution and the invalidity, old age and death pensions to be connected. The reducing tax rates, promoting and informing mechanisms and increasing real income declaration should be provided instead of applications such as administrative fines and retroactive borrowing.

**Key Words:** Undeclared Economy, Social Security Contribution Evasion, Undeclared Earnings

**JEL Codes:** H55, H31, H26

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# **A Comparison of Compulsory Individual Pension Contributions in Terms of Parafiscality**

**Serkan Acuner<sup>1</sup>**

## **1. Introduction**

Parafiscality, which is one of the public revenues, and compulsory individual pension contributions resemble each other in many aspects. Especially the similarity between compulsory individual pension contributions and social parafiscality in terms of protection, economical and social contributions is the main focus of this study. When the features of social insurance premiums and compulsory individual pension contributions are considered, “imperative component” may give rise to the fact that social insurance premiums and compulsory individual pension contributions share similarities in terms of parafiscality. Likewise, with regards to the individuals who are enrolled in the system automatically, this notion may promote questions of whether a new taxation technique has emerged. This study aims to compare the parafiscality and compulsory individual pension contributions, then addressed the features of compulsory individual pension contributions with regard to tax-like income, as the name compulsory implies. This qualitative study adopting a systematic literature review as a research method interprets the legal arrangements through grammatical interpretation technique and clarifies the subject of the study.

## **2. Compulsory Individual Pension System and the Contributions**

Individual pension system, which went into effect in Turkey with the law no. 4632 in 2001 for the first time, started to be used in 2003 by voluntary participation after the necessary infrastructure works were completed. In 2016, the system was faced with a new regulation which based on involuntary participation. While involuntary basis comprises a two-month period after enrolling in the system, participants are entitled to a right of withdrawal during the two-month and ongoing process.

First-time employees and employees who are still working will be enrolled in individual pension system automatically on condition that they have not turned the age of 45 (BETYSK, artc. Appendix 2/1 ve artc. Provisional 2).

The contribution, which is to be paid by employees who are enrolled in the system involuntarily, is determined as 3% of the principal amount of social security contribution (BETYSK, artc. Appendix 2/2). All the same, higher amounts of contribution can be transferred to the system on employee’s demand (BESHY, artc. 22/F-3). Besides participants, employers are also allowed to pay contribution on behalf of employees (BESHY, artc. 22/G). The participants who are enrolled in the system involuntarily are offered several state contributions.

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### 3. Parafiscality

Besides taxes, tax equivalents rank as the most important finance sources of public services. Public revenues must be earned and practiced in the light of regulations on constitutional level. State has the right and authority to release and receive taxes and tax-like financial sources as an obligation through exercising a fair and balanced distribution according to financial power (AY, artc. 73/1, 2). Moreover, state has to regulate this obligation by law (enacting, repealing, amending) (AY, artc. 73/3). This is called legitimacy of taxation (See Güneş, 2011: 26-32).

There are several parafiscality definitions in the literature (See Ağcakaya ve Armağan, 2012: 99; Organ ve Akçay, 2013:162; Yereli, 2002: 39; Herekmen, 1972: 11). Güneş and Biyan (2016) admit that tax-like financial obligations and parafiscality is not identical, however, considering the fact that both terms are regarded as identical in the judgments of Constitutional Court, the researchers defines the parafiscality within the tax-like financial obligation as *"...a financial obligation in return or not in return for public service, in accordance with the objective specified in the law, in order to cover the expenses of the related institution or organization, collected based on public force and not considered within the general budget, and that must be legislated, and that incorporates certain features of tax, fee and duty"* (Güneş and Biyan, 2016: 348). Parafiscality is classified as social parafiscality, economical parafiscality and professional parafiscality. Based on this classification, social parafiscal, economic parafiscal and professional parafiscal institutions need to be mentioned.

On the basis of the definitions determined in the literature, parafiscality features can be arrayed: parafiscal revenues are collected to finance the goods and services produced by public or semi-public institutions, they are regulated by law although they are the result of state sovereignty, they are collected forcibly based on reciprocity, they assist the increasement of the volume of saving, they contribute to social peace, they are used as tools in economical and financial policy, they are collected from the members of parafiscal institutions or organizations.

### 4. A Comparison of Compulsory Individual Pension System Contributions and Parafiscality

Considering the general features of parafiscality, the comparison of compulsory individual pension contribution and parafiscality in terms of legality and obligation, finance, reciprocity, indicated that compulsory individual pension contributions do not comprise the features of parafiscality.

On the other hand, the results of the comparisons in terms of security, economical and social function suggested that social security contributions which are considered as social parafiscal revenues, share similarity with compulsory individual pension contributions. The results of the systematic literature review showed that compulsory individual pension contributions do not have the features of parafiscality.

## 5. Result

Primarily, when the subject is considered from the point of “imperative component”, it is clear that both parafiscality and contributions are based on compulsion with public force on constitutional level. However, the imperative component is violated in terms of compulsory individual pension contributions with regard to time limitation. Parafiscal taxpayers have to pay the tax-like liability whether or not benefit from the service through participating to a public or semi-public body. If and only if this liability ends when the taxpayer leaves the public body (for example disenrollment from bar, quit). The compulsion in individual pension system is provided only in terms of participation, the participants are entitled to remain in or quit the system at the end of and after withdrawal period. It is not possible to conclude that compulsory individual pension contributions embody parafiscality by looking at imperative component.

A comparison regarding finance should consider the needs of the members or participants. Who pays due or premium to parafiscal institutions benefits from the services of the parafiscal institutions and accordingly finances these services, in other words, finances these parafiscal institutions completely or partially. Parafiscal institutions deal with producing goods and service for public needs. Despite the “special quality requirements” statement specified in the parafiscality definition, the quality of the supplier institution will not alter the quality of the service, and public nature will become evident. Payers of compulsory individual pension contributions enrol in the system to receive protection against the elderliness risks which are considered among special needs. The participants who benefit from a special service finance their elderliness instead of a system/institution/organization/company. In this case, it is not possible to suggest that compulsory individual pension contributions share parafiscal quality in terms of finance.

Who pays premium or due to parafiscal institutions is obliged to tax-like liability in remuneration for benefiting from the service offered by the institution. Tax-like liability is based on reciprocity principle although in some cases (such as an employer’s paying social security premium) reciprocity is not in question. In compulsory individual pension system there is no such reciprocity. An individual pension company, which transfers the contributions to the participants’ accounts, protects and values these contributions, is neither a public body/organization nor entitled to collect parafiscal revenues. The company collects payments in exchange for trade it executed (enrolment due etc.) which is the provision of a special service. Considering this aspect, once again, it is not reasonable to assert that compulsory individual pension contributions feature parafiscal quality.

It is suggested that compulsory individual pension contributions share several similar aspects with social security premiums which are considered a type of social parafiscal revenues. Both systems offer insurance protection. Furthermore, both systems contribute to social tranquillity and peace besides their immense favourable effect on economy. The main difference between these two systems is that whereas public insurance function of social security system offers protection against several risks such as health, elderliness, disability; special insurance function of compulsory individual pension system offers subsidiary protection/assurance only against elderliness. On the other hand, social security system is a requisite of social state principle. While social security system provide protection to every segment of society through with or without premium methods, compulsory individual pension is a system in which only contribution payers are protected. Although insurance and

social functions of both systems share similarities, the main difference dwells in qualities. Both systems are substituted in some applications; nevertheless compulsory individual pension system is a system which provides supplementary insurance to social security system. In this respect, these qualities are not enough to consider that compulsory individual pension system features parafiscality.

All in all, these comparisons suggest that individual pension contributions do not embody any parafiscal feature. Compulsory individual pension contributions are not tax-like revenues. Participants enrol in the compulsory individual pension system by virtue of their own needs and fund to their elderliness through saving money for themselves.

**Keywords:** Parafiscality, Parafiscal Revenue, Tax-like Financial Obligation, Compulsory Individual Pension Contribution

**JEL Kodu:** H55, J26, K34, L33.

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# Environmental Policies in Turkey: An Evaluation within the Context of the OECD Environmental Policy Stringency Index

Hilal Gökem<sup>1</sup>

## 1. Introduction

Negative externalities created by environmental problems make it inevitable for the state to intervene in this area by various means. In addition to the legal regulations that set the legal framework, environmental taxes, quotas, tradable pollution permits, subsidies and support for environmental protection are frequently used by governments. There are some arguments in the literature that environmental policy regimes, on the one hand, lead to expand production and employment in the green sector, but on the other hand especially in the traditional sectors they hurt employment, negatively impact economic growth and deter foreign direct investment (see Phukan, 2017; Koźluk&Zipperer, 2015; Sat, 2017). At this point, the composition of the countries' environmental policies, the variety of the instruments they use and the stringency of regulations matter. In addition, considering the international economic relations, it is necessary to consider whether environmental policies are stringent or loose by comparison with other countries.

In this study, the development and the current situation of environmental policies in Turkey and her position between the countries in the OECD Environmental Policy Stringency Index. Firstly, the legal regulations that form the basis for environmental policies and the policy instruments will be addressed. Then environmental policy and the policy instruments used in Turkey will be evaluated in a comparative basis in consideration of the OECD Environmental Policy Stringency Index which includes the data for 34 countries, (28 OECD countries, the BRICS countries (Brazil, Russia, India, China, South Africa) and Indonesia).

## 2. The Development of Environmental Policies in Turkey

The 1982 Constitution of Turkey emphasizes that the state is responsible for improving the environment, protecting environmental health and preventing environmental pollution (Article 56). The Environmental Law No. 2872 of 1983 which is the framework law in the field of environment in Turkey, address legal and economic instruments used in the fight against environmental pollution and protecting the environment. These are “standards, market-based mechanisms and economic instruments and incentives, such as taxes, dues, participation charges, incentives for renewable energy sources and clean technologies, emission and pollution fees, carbon trading” (Article 3).

Since the 1990s, environmental regulations and developments have intensified. The Ministry of Environment was established in 1991. One of the most prominent regulations in the 1990s was the Environmental Impact Assessment (EIA) Directive (1993). Turkey which is a

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party to many international conventions, notably UN Framework Convention on Climate Change, carried out many regulations on the environmental issues in the harmonization process to EU in the 2000s. Many regulations on environmental problems such as waste water, solid wastes, packaging waste, noise pollution, air pollution were made (T.C. Çevre ve Orman Bakanlığı, 2007).

It is stated in the 10th Development Plan (2014-2018) that eco-friendly approaches, new business areas that provide environmentally friendly economic growth, R&D and innovation will be supported. In the context of energy efficiency improvement program among the priority conversion programs, it is indicated that the tax system will be arranged in the favor of energy efficiency and energy efficiency will be promoted. Increasing the share of renewable energy sources in order to reduce energy import dependency is underlined in the Medium Term Program (2018-2020). In the context of the main policies on budget revenues in the 2018 Budget Justification, it is emphasized that “tax policies towards energy saving, combating climate change and environmental pollution will be continued”.

### **3. Turkey in the Environmental Policy Stringency Index**

While there are a number of studies to establish an index to measure stringency of environmental policies, one of the issues often expressed in the literature is the difficulty of establishing an appropriate index to compare countries' environmental policies (Botta& Koźluk,2014; Brunel& Levinson,2016).

The OECD Environmental Policy Stringency Index provides regular data for 28 OECD countries, BRICS countries (Brazil, Russia, India, China, South Africa) and Indonesia between 1990 and 2012. Between 2013 and 2015, data are available only for 17 countries. The OECD Environmental Policy Stringency Index ranges from 0 to 6. 0 represents not stringent policies, while 6 represents policies having highest degree of stringency.

The index, which is based on the stringency of 14 environmental policy instruments, divides the instruments into two main categories as market and non-market instruments. Market instruments consist of three main components: taxes (CO<sub>2</sub>, Diesel, NO<sub>x</sub>, SO<sub>x</sub>), trade schemes (green certificates, CO<sub>2</sub>, white certificates), and feed-in tariffs (wind, sun). The non-market instruments include standards (NO<sub>x</sub>, SO<sub>x</sub>, PM emission limit values, sulphur content limit for diesel) and R&D subsidies (renewable energy public RD& D budget).

According to data for 2012, Turkey's score is 1.83. Turkey is the country with the lowest score in OECD countries (OECD average, 2.82) after Mexico (0.63). India (1.30), Indonesia (1.17), South Africa (0.71) and Russia (0.60) follow Turkey respectively. Brazil is at the bottom of the index (0.38). The country with the most stringent policies is Denmark (3,85). According to data for 2015, Turkey (1.92) is ranked 11th out of 17 countries. The lowest score belongs to Brazil (0.54).

Turkey is ranked 24th with 0.46 points at the beginning of the period. Turkey's average score was 0.46 in 1990s, 1.04 between 2000-2009 and 1.98 between 2010-2015.

**Table 1. Turkey's Scores of Environmental Policy Stringency Index (2010-2015)**

	2010	2011	2012	2013	2014	2015
<b>Index</b>	2.06	2.21	1.83	1.92	1.92	1.92
<b>Market EPS</b>	1.50	1.67	0.92	1.08	1.08	1.08
<b>Taxes</b>	1.00	1.00	0.75	1.25	1.25	1.25
CO <sub>2</sub>	0.00	0.00	0.00	0.00	0.00	0.00
Dizel	4.00	4.00	3.00	5.00	5.00	5.00
NO <sub>x</sub>	0.00	0.00	0.00	0.00	0.00	0.00
SO <sub>x</sub>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Trade schemes</b>	0.00	0.00	0.00	0.00	0.00	0.00
<b>Feed-in tariffs</b>	3.50	4.00	2.00	2.00	2.00	2.00
Wind	6.00	6.00	2.00	2.00	2.00	2.00
Sun	1.00	2.00	2.00	2.00	2.00	2.00
<b>Non-market EPS</b>	2.63	2.75	2.75	2.75	2.75	2.75
<b>Standards</b>	4.25	4.50	4.50	4.50	4,50	4.50
Emission limit values NOX	5.00	5.00	5.00	5.00	5.00	5.00
Emission limit values SO <sub>x</sub>	5.00	5.00	5.00	5.00	5.00	5.00
Emission limit values PM	2.00	2.00	2.00	2.00	2.00	2.00
Sulphur content limit for diesel	5.00	6.00	6.00	6.00	6.00	6.00
<b>R&amp;D Subsidies</b>	1.00	1.00	1.00	1.00	1.00	1.00

Source: OECD, 2018

The standard for sulphur content limit for diesel is the most stringent policy instrument with 6 points. The score for taxes (1.25) indicates a loose policy, while the tax on diesel within this group refers to a rather stringent application with 5 points. When the main indicators are assessed, Turkey's highest score belongs to standards (4.5). Turkey's loosest environmental policy is about trade schemes (0) followed by R&D subsidies (1). In general, non-market instruments are seen to be more stringent (2.75).

#### 4. Conclusion

The OECD Environmental Policy Stringency Index data show that Turkey's environmental policy is loose (1.92 by 2015). However, considering the sub-components there are some strict environmental policy instruments: sulphur content limits for diesel (6), taxes on diesel

(5), NO<sub>x</sub> emission limit values (5) and SO<sub>x</sub> emission limit values ( 5). Turkey is the country having the loosest policy after Mexico among OECD countries. Turkey's score is higher than BRICS countries except China (2.16).

The score of Turkey has an overall upward trend in the 2000s during the harmonization process to EU in which many regulations on environment were carried into effect. In recent years, the policies on the use of renewable energy sources in our country seem to become intense both in terms of discourse and application. The prominent aim of that policy is to improve the current account balance by reducing external dependency in energy. However, one of the indicators in the OECD Environmental Policy Stringency Index, the score for renewable energy public RD&D budget seems to be quite low (1). Turkey has the same score with BRICS countries and Indonesia.

**Keywords:** Environmental problems, Environmental Policy, Environmental Policy Stringency Index, Policy Instruments

**JEL Code:** H23, Q50, Q58

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## **Environment and Waste of Tobacco Products: Proposal of a New Tax**

**İdris Sarısoy<sup>1</sup>**

### **1. Introduction**

Tobacco products are considered as demerit goods which creates negative externalities. Therefore, an upper limit for taxation of tobacco products have not established in the literature. Consequently, the tobacco products are highly taxed in the modern economies to create revenue and decrease the demand of such products.

It is estimated that 5.8 trillion cigarettes were consumed in the world according to the data of 2014. The highest per capita consumption is in China (2249.8 Total annual consumption per person). Turkey takes 8th place in this ranking (1580.9 pieces) (Mackay and Eriksen 2002; Eriksenetc.al, 2015; TAPDK). When we consider the fact that a significant part of these are consumed in outdoors, it is easier to understand that, despite the existence of a strong and fundamental justification for environmental taxation on tobacco products, no environmental taxation is a very important shortcoming. It is clear that tobacco products consumed and left in the outdoors (streets, streets, squares, beaches, seas, etc.) cause significant damage to soil and water (US Department of Health and Human Services,1981).

Six companies that produce tobacco products (China National Tobacco Corporation, Philip Morris International, British American Tobacco, Japan Tobacco International, Imperial Tobacco, Altria Group, Inc./Philip Morris USA) have 83.8% of the global tobacco market according to 2010 figures. Their annual sales revenue is 346, annual profit is 35 (profit in 2013 is 44.1) billion dollars (Rehn, 2014 andEriksenetc.al, 2015). Turover from sale of tobacco products in Turkey in 2014 was about 35 (34,624,817,146.64) Billion TL. This amount corresponds to 1.9% of the GDP of the relevant year. The same rate in the world for 2010 was 0.54% (2.19% in Turkey) (TAPDK; Kalkınma Bakanlığı, 2015). Total spending for tobacco products is of 0.54%, of world's GDP, while it is up to 2% in Turkey.

### **2. Reasoning behind Environmental Taxes on Tobacco Products Consumption**

The tobacco products, which are inferior goods and produces negative externality, transforms the absence of the upper limit on the taxes on the products in question to a globally accepted practice. In particular, the inverse relationship between the price of tobacco products and the demand has made it possible for taxpayers to use tobacco

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products as a means of lowering demand. However, as always, it is important to remember that taxation on tobacco products has a financial aim.

Today, almost all the taxes on tobacco products are consumption taxes. In other words, taxes paid by tobacco consumers do not have the ability to eliminate or alleviate environmental damages caused by consumption of tobacco products. Sales on tobacco products, spending taxes such as VAT and special consumption tax, the reduction of consumption of tobacco products and the increase in tax revenues are the frontrunners.

In the literature review, there was no study spotted on taxation of environmental side of that targets the harm to the environment of consumption of tobacco products. In two studies Novotny and Zhao, (1999) and Novotny et al. (2009) touched upon this issue and they have only been addressed at the level of recommendation. No empirical studies found so far.

The fact that tobacco product wastes that are consumed in the open areas and disposed of by the wastes are very harmful to the environment, but the fact that the environmental tax is not obtained through tobacco products is an important shortcoming. In literature, lack of any studies based on empirical analysis of the subject (eg, rate, amount, method of implementation, taxpayer, effects, output etc.) is another shortcoming. Because the damage caused by tobacco product waste in open areas constitutes a financially justified tax issue. Therefore, it would be a correct practice to take a tax on environmentally friendly tobacco product waste in open areas, in all respects (economic, social, justice, financial, etc.).

One of the most important steps in this process is precisely what environmental taxation will be based on when considering consumption of tobacco products. In other words, does the issue of the taxation of the tobacco product waste in outdoors cause damage to the environment or will it be the financing of public expenditures to clean them? Or will the tobacco waste in open areas be financed by practices that will not harm the environment (awareness, advertising, education, etc.)? Each of these can be done on a separate environmental tax basis, as well as a single environmental tax on the damage caused by tobacco product waste in the open area as a whole.

The rate at which the tax is to be taken relates to how much consumption of tobacco products has done to the environment. However, it is impossible to pinpoint the monetary value of the harm caused by tobacco waste in the open space. The most important reason is that the environmental damage caused by tobacco waste in open areas in every environment (water, soil, air) is different. It is also impossible to determine to what extent the waste of tobacco products in open areas is distributed in which environment (water, soil, air). This problem makes it difficult to apply a harmful tobacco product to the surrounding area of tobacco waste in open areas. On the other hand, it is possible to determine the expenditures made for the cleaning of tobacco waste in open areas, which is an environmental issue. Therefore, it is easier and more rational to apply an environmental tax that focuses on the removal of waste from the consumption of tobacco products in open areas. The removal of such a vaccine facilitates the detection and application of the vaccine by binding the tobacco product waste from the open area to the purpose of financing the cleaning costs, while the relationship of "tobacco product waste in the outdoors - environmental damage" is justified.

### 3. Contribution to the Literature

It is expected that the study will provide appropriate answers to the question "How much tax should be levied on the consumption of tobacco products to finance the cleaning costs of tobacco product waste in open areas", which is not mentioned in the literature at all. To address this problem in practice, open space will benefit from data on waste amount of tobacco products, data on factors affecting waste amount of tobacco products in open areas, and cleaning costs on tobacco products waste in open areas.

The aim of the work is to be based on the idea that tobacco products in the open area are harmful to the environment; to introduce a new "Environmental Tax" proposal based on the consumption of tobacco products, which will ensure that waste must be collected but it is an important cost, and that they will be loaded on those who cause pollution on the principle of "pollutant pays", and empowering this proposal with empirical analyzes. In this context, the most important contribution of the researcher to the relevant literature will be the financial assessment of the relationship between tobacco product wastes and environmental damage in open areas, resulting in a new environmental tax proposal based on the principle of "pollutant pays". The reason for the recommendation will be explained, the method of implementation will be explained, and the possible consequences will be assessed as the result of the application.

The study has three key features that make it the first study to establish a relationship between tobacco product wastes and environmental damage in the open space of a tobacco product and suggest empirical analysis, to create a new application area for the "polluter pays" principle and to be unique in the related literature due to the proposal of a new type of environmental tax It has.

### 4. Conclusion

Despite the fact that the harm caused by tobacco waste in the open area has been revealed in a number of investigations, the subject of this relationship has not yet been adequately examined in the literature. Making the taxation of this relationship contributes to the literature, and in later stages this field can shed a light on further research. If the recommendation is implemented, such cleaning costs may be loaded onto those who make cause these social costs.

**Keywords:** Environmental Tax, Tobacco Products' Wastage Tax, Effect of Tobacco Wastage, Demand Elasticity of Tobacco Products, Externality of Tobacco Products

**Jel Clasification:** H23, L66, Q15

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## **Role of Fiscal Policy in Reducing Environmental Pollution: Iraq Sample**

**Muhammed Samanci<sup>1</sup>**

### **1. Introduction**

Environmental issues have intensified into the world agenda in the late 20th century. The Stockholm Conference, held in 1972, is regarded as the first important conference in which environmental problems are handled in detail. In recent times, problems have arisen, such as increased temperatures on the earth, desertification, piercing of the ozone layer, depletion of forest areas, extinction of many plants and animals, and air and water pollution. These developments have seriously harmed the environment and people, and the concept of sustainable development has emerged. Therefore, it has become necessary to take into consideration the environmental dimension within the scope of providing economic development. The use of taxation or subsidies on environmental politics was first put forward by British economist Arthur C. Pigou. Especially pollution tax has passed the literature as Pigovian Taxes.

The Iraq - Iran war between 1980 and 1988, the Gulf War in 1991, the 2003 invasion of Iraq and the subsequent terrorist incidents caused environmental pollution, which threatened the health of the citizens and led to various diseases. The purpose of this study is to address the environmental pollution in Iraq and to demonstrate the role of fiscal policy in removing or minimizing this problem using descriptive analysis.

### **2. An Overview of Environmental Problems in Iraq**

The role of governments in environmental protection is to control pollution and ensure a sustainable institutional structure. The means that States use to control environmental pollution are environmental taxes, permits and subsidies (Mesdur, 2010: 348). Prior to 2003, the Environmental Protection Department, a unit of the Ministry of Health in Baghdad, conducted studies on environmental pollution. After 2003, the Ministry of Environment was established and 95.113,891 Dinars were allocated to the Ministry of Environment from the 2010 budget. In the following years, budgets allocated from the budget have increased and the protection of the economy has been included in the economic development programs planned to be implemented in Iraq.

In Iraq, legal regulations related to environmental protection are also included. In the third paragraph of Article 114 of the 2005 Iraqi Constitution, it was stated that cooperation in city and regions should be made in forming environmental policy. The most effective law on

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environmental protection is the Environmental Protection and Improvement Law approved by the Iraqi Parliament in 2009. According to this law;

- Establishment of environmental protection cops
- Creation of environmental information system
- Determination of acceptable level of environmental pollution
- Determination of factors causing environmental pollution
- Reduction of water, air and noise pollution
- Protection of biodiversity
- The development of environmental audits has been on the agenda.

In the 2010-2014 Development Plan, it was emphasized that the environmental dimension should be taken into consideration for the sustainable development in Iraq. In this context, the Bagdat Environmental Protection Directorate of the Ministry of Environment has regularly visited the health institutions, medical waste units, factories, wastewater and petrol stations via specialist teams and started applications to determine whether the standards are complied with.

Non-governmental organizations related to environmental protection were also established in Iraq. Examples are the Iraqi Organization (Süleymaniye), the Rasha Social Association (Basra) and the Animal Protection Association (Küfe University). The Iraqi Organization is approved by the United Nations Environment Program (UNISEF) and the United Nations is actively working in this area. The aim was to revive the purpose, environmental protection and rich cultural heritage of Iraq. The organization, in cooperation with the Ministry of Environment, conducted a field survey on the Wild Birds diagnosis and census in the city of Sulaimaniye on 24-29 April 2011.

International environmental agreements that Iraq participates; The United Nations Environment and Climate Change Convention, the Ramsar Convention, the 10th Japan Biological Diversity Convention (2010), and the Paris Climate Treaty (2016).

There are international and national efforts to protect the environment in Iraq. In terms of international efforts, the United Nations Environment Program was established to remove the environmental pollution caused by the 1991 Gulf War, and a development fund was established at the Geneva meeting on June 2, 1991, and \$ 2.665 million was collected. As a result of the 2003 invasion of Iraq and the burning of oil wells, in April of the same year, the United Nations was at the urgent meeting call. After the meeting, a team of experts had decided to make uranium measurements for environmental pollution, which was the result of the war. However, the US has not allowed these measurements to be carried out so routinely. On the other hand, there are arrangements to clean the rivers and wastewaters which have been in operation since 1976, until the amounts they allow.

Economic measures taken in the fight against environmental pollution in Iraq;

- Application of Technological and Administrative Standards: establishment of information systems and determination of acceptable pollution limits,
- Considering economic and environmental aspects while selecting and evaluating projects,

- Establishment of Recycling Projects,
- Activities that damage the environment need to be kept under surveillance.
- Measures taken in the direction of fiscal policy;
- In the case of violation of laws related to the environment, 5000-50000 Dinar fines,
- In case of repeating the violation of the law, in addition to the fine, 3 months imprisonment,
- The cost of environmental pollution is collected from polluters.
- The above-mentioned regulations have not found application in practice. The main reasons for this are;
- The lack of coordination between the measures taken with environmental protection legislation and the implementation system,
- Due to the narrow scope of legislation,
- The polluting units of the environment prefer payment of punishment instead of pollution reduction measures,
- Insufficient resources, experience and technology.

### 3. Conclusion

Environmental pollution has become an international problem. When economic policy and plans are applied, it is necessary to take into consideration the possible damages to the environment. Iraq - Iran war, Gulf war and occupation of Iraq as a result, elimination of rivers, inability to clean chemical wastes, inadequacy of treatment plants and uncleaning of areas, containing radiation danger have caused corrupted in nature and environmental pollution. After 2003, Iraq has become a party to many international agreements on the issue of environmental pollution and has made legal arrangements. Within this scope, the polluter pays for the punishment of up to 5.000-50.000 Dinara and 3 years imprisonment. However, the expected results were not achieved because of the lack of coordination between the legislative body and the executive body and institutions and because of the penalties were lower than the cost of damage to the environment. Economy policies must have environmental protection. In the context of fiscal policy, tax and subsidies need to be used more effectively in protecting the environment. Besides, the possibility of reflecting the cost of environmental protection to the cost of production will contribute to the increase of environmental awareness.

**Key Words:** Fiscal Policy, Environmental Tax, Environmental pollution, Sustainable Development, Environmental Pollution in Iraq.

**JEL Kodu:** E62, H23, Q01

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## Eco-Politics of Urban Water Services in Turkey

Musa Gök<sup>1</sup> Arman Zafer Yalçın<sup>2</sup>

### 1. Introduction

Water is the most basic source of the ecological life. Besides that, it is the input of almost all the economic activities either directly or indirectly. For this reason, it is impossible to sustain life or carry out economic activities without water. Water also has an economic value for its use as a natural source in economic activities. At the same time, since water is vital for the continuity of life, it is one of the important components of fundamental human rights. However, because of the reasons such as climate change, bad management, urbanisation, the growth of population, and increased water dependence for economic activities, the water has become a scarce source. Water scarcity makes the access to water very difficult, especially for the poor all over the world. In such environment, the access to water for people getting difficult increases the poverty while it decreases the quality of life and it worsens the situation. Water's having the vital importance for the human life and the society as well as it technically being the monopoly of nature require the direct interposition of the public in matters such as the supply, pricing, and distribution of water. From this point of view, the aim of this study is to analyze the socio-economic and political aspects of the supply, distribution, and pricing of drinking water and city water within the scope of constraints such as poverty and distribution of income. In the first part of the study, the theoretical framework of the presentation of urban water services will be analyzed. In the second part, the presentation and pricing of the urban water services in Turkey will be analyzed with the economic and legal aspects. In the third and last part, the water tariffs of the municipalities which are the main actors in the presentation of urban water services in Turkey will be analyzed by taking United Nation's (UN) presentation principles regarding water into consideration.

### 2. Presentation of Urban Water Services

Urban water services, by their nature, have to be monopolies. An important characteristic of natural monopolies is that the average cost decreases depending on the increase in the amount of production, meaning the existence of positive scale economies. The urban water services are known to be the most common examples of the natural monopoly conditions. The fact that a water supply's being on more than one pipeline in a city is not operative creates the rational foundation of the one- actor structure of these services. Because of the reason that the water supply generally is built and operated by municipalities or regional

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authorities, this sector consists of a combination of 'local natural monopolies'. The presentation of urban water services consists of five interrelated phases. These are; water's being taken from the ground (collected), its purification, its distribution, collection of waste water, it's being purified and its disposal.

In the world, the presentation of urban water services was a field in which the public characteristic outweighed until the 1990s, there was no commercialization in the pricing. Since 1990s, with the effect of neo-liberalism, the privatisation and commercialization of these services started to come into prominence. Since the 2000s, on the other hand, we see that the presentation of urban water services has gained a place in the market. Corporatization and deregulation are the most visible applications of the process of marketisation. The most basic argumentation that paves the way for marketization was the approach that "Water is a scarce asset, therefore, it needs to be seen as both a natural source and an economic asset" in the Rio conference in 1992. Again in 1992, at the International Conference on Water and Environment, held in Dublin, it was underlined strongly that even though water is accepted as a natural source, it ultimately has an economic value and therefore, it must be considered as an economic asset.

At an international level, with the acceptance of water being an economic asset, the governments started to develop tariffs that are profit focused on the pricing of the city water. The Dublin Declaration, on one hand, paved the way for water to be considered as an economic asset and on the other hand, it paved the way for the period of privatization of water services. In this period starting with the Dublin Declaration, the application of market based policies for the efficient use and management of water which is accepted as a scarce source gained importance.

On one hand, the overpowering demands coming from the poor countries that water must be a fundamental human right, on the other hand, the pressure of international companies from developed countries which see water as a profitable area forced the UN to define the content of the water right in a compatible way with the sale and purchase of water in the market. As a result, in 2010, water was defined as a fundamental human right the supply of which is possible.

### **3. Presentation and Pricing of Urban Water Services in Turkey**

In the management and transportation of water services in Turkey, there are five important, authorized and responsible institutions. About water, the General Directorate for State Hydraulic Works has the general authority and experience at the country level. In the urban areas, in the cities where there are metropolitan municipality administrations; the water and sewerage administrations and in the other cities, municipalities' own units are authorized. In the city level, in rural areas, Provincial Special Administrations are authorized. Also, the Provincial Bank is also an important institution which gives financial and technical support to local administrations in the water and sewage services. When we look at the authorized institutions which are responsible to offer urban water services in Turkey, it is seen that aforementioned services became a local public service from the center to the local with the transference of authority. Water services, according to 14th article of the Municipal Law No. 5393 (5393/14-a) is one of the services that the municipality must offer with priority.

Even though there are no direct provisions in the 1982 Constitution Act about water's being a social and fundamental right, there are many provisions that implicitly emphasize the importance of water in the human and community life. Among those, especially the 56th law of the Constitution, with the statement that says "Everybody has the right to live in a healthy and balanced environment" emphasizes the social and publicness aspects of water. However, even though the publicness aspect of water is clear, it is hard to say, in Turkey, that it is taken into consideration in the pricing of water services. In the legal regulations and other infra legal arrangements, there are legal regulations in the presentation and pricing of the urban water services be such as to be considered as an economic/commercial commodity rather than the social content of water. It is necessary to draw attention to the three legal regulations that are of this nature. The first one of these is the 1st article of Law No. 4736 on the Amendment of Certain Laws and Regulations of Goods and Services Produced by Public Institutions and Organizations.

With this article, it is prohibited to apply free or discounted tariffs to any person or institution except for commercial discounts that must be made in respect of goods and services produced by all public institutions and organizations. The second regulation is the Article 23 with the headline of "Tariff Adjusted Basis" of İSKİ (İstanbul Water and Sewerage Administration) Establishment Law's No. 2560 which regulates the duties, authorities, and responsibilities of water and sewerage administrations in the metropolitan administrations. The third regulation is Article 24 of the Law on the Organization and Duties of the General Directorate of State Hydraulic Works. In this article, there is the rule that all the expenses spent to generate water facilities are paid by those who benefit from these services. In recent years, tariff systems and pricing methods have been extensively used in the governments which adopt the neo-liberal state concept in the financing of the public services that are divided and can be prices, especially with the reason to ensure financial activity. Through financing, on one hand, the financing of the services provided in the public economy is ensured and investments are financed. On the other hand, the function of balancing the production and the demands, especially in the short term.

In the pricing of the urban water services, the by municipalities are authorized and the municipalities use their authority to create tariff that accepts the consumption volume as the first criteria depending on the water consumption. However, in the pricing of water, it is pretty hard to say the publicness characteristic of water comes forward. While creating the water tariff, the municipalities preclude the pricing for the benefit of the poor people with the statement from Article 47 (1) of Law No. 4736 which says "Except the commercial discounts, no discounted tariff can be given to anyone or any institutions".

#### **4. The Tariffs Applied by the Municipalities in the Pricing of Urban Water in Turkey**

In this part, water tariffs of some of Turkey's metropolitan cities which include the majority of the population in Turkey will be analyzed. In this analyzing, we have two goals. The first one is to compare depending on the criteria of justice and equality with regards to pricing of water among the municipalities analyzed. The second one is to reach to a concrete finding about to which extent water's publicness aspect is taken into consideration through the water pricing of all the municipalities analyzed.

## 5. Conclusion

Today, with the effect of neo-liberal policies, water has been considered as an economic asset and, therefore, there are a serious commercialization and marketization process in the presentation of water-related services. Whereas, water is an element of, not only the modern times but also the whole humanity and all the other living creatures. Therefore, water is, first of all, a public right. However, in the pricing of the water, both in the world and in Turkey, there is the problem of inequality to the detriment of the poor. In the pricing of water in Turkey, as a result of infra legal arrangements which are incompatible with the Constitution, there is the problem of commercialization. With the imposition of the law numbered 4736 aimed at the lower income group in the pricing of the water, the municipalities cannot apply different tariffs and in the tariffs, the cost and profit orientation become prominent.

**Keywords:** Water, Tariff, Public Benefit, Pricing

**Jel Codes:** H42, H71, Q25, Q28.

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## Evaluation of E-Tax Practices in Turkish Tax System

Orçun Avci<sup>1</sup>

Zeynep Demirci<sup>2</sup>

### 1. Introduction

Today, the change in information and information technology brought about many changes in life. For this reason, as information technology develops, the frequency of use in public services is also increasing. As digital technology continues to evolve, electronic transactions are becoming more and more important in the field of taxation. The change in the taxation system is part of this. But before that, fundamental changes in public administration within the scope of e-government came to the fore. From public services it is intended to be utilized with e-government practices quickly. With the e-government project TOAS (Tax Office Automation System), it is ensured that income administrations are able to carry out taxation transactions much more easily, quickly and effectively. A significant portion of tax revenues are now being collected electronically via e-tax payment (e-payment). In this sense, e-tax practices are aimed at improving the quality of public services and the process of taxpayers by preventing tax evasion. When we look at e-tax practices in our country, especially practices such as e-government, e-invoices, e-books, e-polls, e-notifications, e-levies are noteworthy. In this context, firstly the conceptual framework of e-tax will be explained. It will then be referred to e-tax practices that is being implemented in Turkey. Then the effectiveness of e-tax practices will be discussed.

### 2. E-Tax: Conceptual Framework

In recent years the impact of globalization, change and transformation experienced both social life and economic life has been seriously affected and transformed. This rapidly to keep up with the speed of the advancing technology, to minimize costs, to avoid a big waste of time and public sector in order to keep up social life has also been a part of this transformation. Electronic Government (e-Government); the use of information and communication technologies in public administration to increase the efficiency, effectiveness, transparency and reliability of the state (Allahverdi, 2012: 162). Within the context of e-government practices, many practices related to taxation have been passed down. The largest of these practices is the TOAS, the tax office automation system.

The basic purposes of the tax office automation system are; more efficient and faster Revenue Administration, providing taxpayer-focused services, providing better services to citizens and businesses, distributing the tax burden more fairly, fighting against the informal economy and other institutions and organizations data sharing is enabled (Hepaksaz &

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Hayrulloğlu, 2011: 113). TOAS covered already related to taxation in Turkey, e-statements, e-invoicing, e-archiving invoices, e-books, e-tickets, e-polling, email notification, it appears that implementation of e-sequestration project.

### **3. E-Tax Practices in Turkey**

With the expansion of automation practices, the tax offices that have been renewed within the framework of the technological developments which have been passed through the e-tax frame and which are required by the age, have been closed by merging 11 tax offices which are serving as the long-term liquidation tax office depending on the Presidency of Istanbul Tax Office. In addition, practices softwares of 57 tax offices in Istanbul, Gaziantep, Konya and Ankara provinces were updated (Revenue Administration, 2016: 97).

With e-declaration practices, this system has been operating in our country since 01.09.2004. The purpose here is to save money on paper. In addition to this, there has been a misunderstanding of the Pre-arranged Rent Declaration System which allows taxpayers who obtain real estate capital ownership to approve and send their pre-prepared declarations related to these revenues (Türkay, 2017: 64-65).

The VAT risk analysis program for the VAT return system is a system that enables online follow-up and continuous analysis by the taxpayers, central and provincial units, from the time the taxpayers submit the return request petitions in the e-media to the intentions.

In 2010, e-billing practices has been started to be used by legal entities (joint stock and limited liability companies) with the Tax Procedure Law (TPL) notification number 397 in our country. In addition, E-archive; It is possible to organize, store, report and submit invoices electronically in accordance with Revenue Administration standards.

E-book is the whole legal and technical regulation aiming to enable the compulsory books to be kept in the form of electronic file in accordance with the determined format and standards, to be recorded without being printed, to be able to guarantee the correctness of its unity, its integrity and its source, to be used by who interested. With this practices, taxpayers will be able to keep their books by recording the accounting records they will make on the computer by using certain programs and they will be able to use their kept electronic records and books as a means of proof (Özaki, 2017: 100).

According to article 93 of the TPL, it is essential that the documents to be communicated are related to the mail. However, different notification procedures are also included in the law. One of these is notified in electronic form. The e-lien practice is to be blocked by the banks to the accounts of the taxpayers regarding outstanding public debts.

In order to evaluate the effectiveness of the specified E-tax practices, only certain headings have been examined in the light of the Revenue Administration.

### **4. Efficiency of E-Tax Practices**

Within the context of e-tax, the above-mentioned practices have been evaluated from the beginning of implementation, and the data received from the Revenue Administration's 2016 Annual Reports, to see how efficient it used and provide the desired success or not.

According to the 2016 Annual Reports, the number of printed declarations decreased from 24 million to 478 thousand in 12 years with the practice of e-declaration. The number of declarations given in the electronic environment has increased from 300 thousand to 90 million (Revenue Administration, 2016: 98). We can say that this kind of declaration is given in electronic environment in 12 years, saving a great amount of paper and time. In terms of e-billing, while the number of taxpayers benefiting from e-billing service in 2011 was 3,024, it increased to 61,013 in 2016 (Revenue Administration, 2016: 102). It can be said that e-billing arranged in very serious amounts prevented the waste of paper in huge quantities.

The number of taxpayers using e-books has risen from 28 to 18,500, showing a big leap in 2014. From 2014 to 2016, the use of e-books in 2 years is more than 200 % (Revenue Administration, 2016: 103). The use of e-books in large proportions, besides minimizing paper usage and minimizing costs, inspection, polling etc. as well as time and workload. Finally, a total of 40,642,316 Turkish liras were saved with 3.694,753 documents sent by e-notification (Revenue Administration, 2016: 107). In addition to this savings due to the non-payment of the postage fee, a considerable amount of savings can be mentioned when paper is not used and less time is involved.

As a result, with e-tax practices; it is prevented that the expenses are reduced in terms of taxpayers and administration, the documents are destroyed by natural disasters and various reasons (Öz & Yüce, 2017: 296). In this sense, it can be said that e-tax practices provide the desired efficiency.

## 5. Conclusion

The e-tax system is mainly a part of e-government practices. However, it never has rules and principles that do not change constantly. For this reason, it is not possible to keep the e-tax system in the 21st century, where technology is constantly changing and a certain mold can not be installed, from the developing and continuously renewing technology. For this reason, we can say that the e-tax system is also subject to change. When all practices related to e-tax are considered, the convenience of giving the taxpayer the payment and declaration has a big importance. In addition, when viewed from the point of view of administration, it is ensured that examining taxpayers, the tax income layout and also the costs are minimized. E-tax practice also brings savings from staff and stationery expenses. With the "Contactless Tax Office" project, many transactions made by going to tax offices in the past can now be done via internet. For example, taxpayers; Income Tax, the debts covered by Law No. 6736, Motor Vehicles Tax, traffic fines, mobile phone and land tax payments can be made via the internet. However, when we look at the law, we think that it will make it easier to support the necessary items by opening a title under the Tax Procedure Law under the name of E-finance in order to make electronic practices look compact.

**Key Words:** E-Government, E-Tax, TOAS, Efficiency of E-Tax.

**JEL Codes:** K34, H20.

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## **Review of the General Communiqué of Tax Procedural Law No. 306 from the Perspective of Tax Criminal Law**

**Zeynep Müftüoğlu<sup>1</sup>**

**Özgür Küçüktaşdemir<sup>2</sup>**

### **1. Introduction**

Tax law and criminal law are directly linked to the fundamental rights and freedoms of individuals. Tax evasion, which is at the crossroads of both fields, is a crime punishable by law and in form of imprisonment. For this reason, it should be carefully monitored within the scope of general principles of law, criminal law and tax law. The present study deals with one form of tax evasion, that is use of fake or misleading documents. Our research will be in light of criminal law while adopting a critical approach against the General Communiqué of Turkish Tax Procedural Law. N.306 as set by The Ministry of Finance in order to tackle tax evasion. Late, additional critiques, scholarly works, precedents are examined to further shed light on the subject.

### **2. A Look at Tax Evasion and its Place in Tax Procedural Law**

Tax evasion regulations, better known as “fraudulent tax offence” until 1980s, has undergone many changes through time which Amendment No. 4369 in 1998 and Amendment No. 5728 in 2008 have been the latest. Amendment No. 4369 showed its impact on Tax Procedure Law (TPL), modifying twenty percent of the articles within Tax Codes and brought about very important changes, some of which will be analysed in the study. The latter Amendment No. 5728, though its success is controversial, aimed to harmonise the Turkish Criminal Law with other related laws. Through out this process, tax evasion articles were updated with regard to titles and penalties.

In the process making such amendment many issues of controversy were resulted while others emerged. The begin with the term “voluntary usage” was removed from the legal definition of “editing or using fake or misleading documents” as in article 344 as well as “loss of tax” was deducted from the elements of the crime. As a result of this the number of reverted tax offences increased, putting those amendments under question as to whether they in essence redefined the crime in the form of strict liability (Öncel/ Kumrulu /Çağan, 2017: 213). These debates found their way into the press as well. After which, the Ministry of Finance introduced General Communiqué of Tax Procedural Law No. 306 in order to put an end to the debates (Baykara, 2004: s.273). The main purpose of Communiqués was to make it clear that the “intent” remained as an element of the crime.

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### 3. Critiques on General Communiqué of Tax Procedural Law No. 306

Within the Communiqués, editing or using fake or misleading documents were to be approached as two separate acts, as editing and using. As to editing, the act itself is pointed as the presumption of intent and in the criminal law doctrine, presumption of intent is considered to be highly risky (İçel, 2007: s.66). Another critique in this respect is objective liability (Hafızoğulları/ Özen, 2014: 239). Presumption of intent, hence the name, turns the burden of proof on the absence of intent to the offender and such a conversion creates a debateable situation as to presumption of innocence which is one of the main principles of criminal law. Based on this principle, a suspect or defendant has to bear no burden of proof as to the elements of crime (Ünver/Hakeri, 2012:23). In the light of such recognition, it is very faulty and damaging to allow for a presumption of intent in the TPL with a regulatory proceeding, by the same token it is also very wrong in criminal law to regulate such a presumption. Regarding the absence of such presumption in the legal basis of the crime, according to article 359 of TPL, it is highly objectionable to admit presumption of intent within regulatory proceeding. This Communiqué also contradicts the principle of legality in crime and punishment as to article 2 of the Turkish Criminal Law.

Another unfavourable event owing to this communiqué occurs when no intent is discovered during inquiries by tax office authorities. In such cases the communiqué states that they cannot be a mention of any crime in the report. Giving such power to the individuals of administrative branch without a judicial examination of intent by judicial branches, gives ground to abuse of authority (Doğrusöz, 2012). Given the controversies on the regarding scope of the power of prosecutors to decide whether it is necessary to prosecute or not when intent is effectively absent (Ünver/ Hakeri, 2012: 564), this would be a clear violation of the general principles of law, especially in criminal cases, to give such degree of authority to taxation officers.

### 4. Conclusion

The General Communiqué of Tax Procedural Law No. 306 can be criticised in two main ways. First one is the presumption of intent, and the second one is approach of the Communiqué to grant excessive powers to tax officers as to decide whether the suspect has indeed demonstrated intent. Alleging presumption of intent within a regulatory process, in this case general communiqué, is against general principles of law. Even if it is to establish presumption of intent, which is highly debatable, such transformation should be made in the form of article in TPL according to the rule of legality. As to giving power to tax officials to decide existence of offender's intent, this violates separation of powers and such authority can only be assigned to judicial figures.

**Key Words:** Tax Criminal Law, Communiqué No. 306, Fake or Misleading Document, Tax Procedural Law

**JEL Code:** K14, K34

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## Judgements of the Constitutional Court at Constitutionality Review and Individual Application in the Context of Coase Theorem

Fatma Yapıcı<sup>1</sup>

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### 1. Introduction

Economists have produced various solutions for the destruction of environment and suffering of people due to environmental damages especially after the Industrial Revolution. Coase has argued that the most effective way to combat externalities is the negotiation of the actors in the marketplace. Where it is costly to get a deal, the most effective solution is to ensure that property rights are well defined. Today, aforementioned environmental externalities become the subject of certain conflicts and the public power (legislative, executive and judiciary) intervenes the relation between the private cost and the social cost. What kind of decisions does the Constitutional Court of Republic of Turkey (TCC), a judiciary body, have about environmental externalities? In this part, Judgements of the TCC at constitutionality review and individual application are discussed in the context of Coase theorem. This study includes both the terms "right to the environment" and the "right to live in a healthy environment". As it is explained in detail in the study, both terms have been used because of the differences in scope of constitutionality review and individual applications.

### 2. Environmental Externalities

The negative externalities leading to deterioration in the quality of the environment are called environmental externalities. While environmental externalities express the declines and distortions that occur in environmental quality as a result of a production or consumption activity, these distortions are not reflected in prices. For this reason, environmental externalities are considered as one of the market failures. Environmental externality is widespread in the common consumer goods where there is no use limit. Commodities such as freshwater resources (rivers, lakes, ponds, etc.), seas, fresh air, free vegetation and wildlife species are often over-consumed; as we have mentioned above the benefits obtained from them cannot be priced accurately, thus the cost of the destruction being met by the entire society. It is called social cost. For example; if we think about a small lake known to fishermen, the difficulty of catching a fish will depend on the number of other available fishermen. Every fisherman will put additional negative externality on the other fisherman. (Stiglitz, 1994: 263).

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## 2.1. Discussing the Coase Theorem

Against modern economic solutions based on state intervention and superiority; according to Coase, the cost of economic activity must not be paid by one party to another. "Reciprocity principle" is the basis of Coase's opposition to idea of bearing the cost of compensation for a loss by single party. According to Coase, for a company A and B, if B is damaged because of the activity carried out by A, what kind of precautions should be taken in this case must be considered. If the measures to prevent B from being damaged are limitation of A, then protecting B will mean harming A, this cannot be considered a correct solution. When Coase evaluates the activity of doctor and confectioner, he discusses the situation of a confectioner the noise and vibrations from whose machinery disturbed a doctor in his work. Changing or restricting the production technique of the confectioner in order to remove the inconvenience of the doctor may reduce the production level of the confectioner. The problem posed by this case was essentially whether it was worthwhile, as a result of restricting the methods of production which could be used by the confectioner, to secure more doctoring at the cost of a reduced supply of confectionery products (Coase, 1990: 96).

Coase developed the solution proposal for the externality problem through two options. Under certain circumstance, Coase says hence, there may be a relationship to the conduct of ordinary economic activities between market actors, the problem of externality can be solved through negotiations. This is the first method to solve the problem of externality. The second method is regulation of the difference between the private cost and the social cost by state authority as in the traditional approach. Because in a situation where externalities have emerged, as long as the rights of use of the property subject to externalities are not specified, the parties will lose their potential to negotiate (Seçilmiş, 2016& Baştürk, 2014). The determination of the framework of the "right of ownership" is of great importance in terms of adapting the theory to contemporary disputes.

The most important dilemma of Coase theorem, which advocates that externalities are settled as a result of the parties reaching an agreement in a free market where the property rights are established and the bargaining transaction costs are zero or low, is the existence of a real market where the transaction costs (acquiring information, having full knowledge, effectively applying for law, etc.) are high. Coase theorem sets a new framework for the analysis of externalities and legal institutions to show that the effective allocation of resources will depend on how property rights are distributed where transaction costs do not make it possible to bargain (Oğuz, 2003: 90).

## 2.2. Critics on Coase Theorem

Coase theorem is criticized mostly at the point of assumptions zero transaction costs, well defined property rights and ensuring optimal bargaining. To Cooter, Coase overlooked the incentives for bargainers to disguise their intentions. Generally, bargaining scenarios won't necessarily induce the parties to reveal their preferences. That means, bargains may not optimal (Farber, 1997: 407).

Pollution rights are not impersonal and pollutees be numerous. An individual pollutee cannot diminish the pollution by refusing his pollution rights. All pollutees will sell their

rights to polluters. If the equilibrium price is positive, then the amount of pollution will equal the number of pollution rights created by the government. If the pollutees's willing to pay for a reduction is more than price, then some coupons are removed by government. Government must create the correct quantity of pollution rights to achieve efficiency (Cooter, 1982: 10-11).

### 3. Judgements of the Constitutional Court

- Firstly, judgements of the TCC are examined in terms of the proposed solution to the problem of externality in the theorem. It is underlined by Coase that the difference between private cost and social cost can be solved by the market under certain assumptions (Baştürk, 2014: 146). How would the situation be defined when the subject of private cost is the state (public power) itself? How can be the problem solved in the free market if the state creates environmental externalities by law (legislation) or administrative action (executive)? There are negative obligations and positive obligations of the state regarding human rights. As negative obligations, the state should refrain from interfering a right arbitrarily. Therefore, the state should avoid creating environmental externalities contrary to the principle of reciprocity under its stated obligation (TCC, App. No: 2012/2552, Date: 25/2/2016). It is not possible to accept that the solution is exactly a "free market" solution in these cases. Because one of the parties is a state in these cases (except for the acts and actions of state which are subject to the private law) and the actions, done by one of the parties, will be in the form of "state regulation", "state operation" in the solution of the problem of environmental externalities. This will come into effect such as withdrawal action, new legislation or annulment of a law.
- Providing a balance between private cost and social cost by judiciary, which is one of the authority of state, is another solution of the problem of externality (Baştürk, 2014: 146). The positive obligations of the state in the protection of human rights are also on the agenda when the interventions result from private persons/entity. There are obligations of state on merits and procedure regarding the right to environment and the right to live in a healthy environment (TCC, App. No: 2014/4686, Date: 1/2/2018; TCC, No.2006/99, No.2009/9, Date: 15/1/2009). It is important to recognize the right to information on environmental issue, the right to be involved in the decision-making process and the right to apply to the judiciary in environmental matters in terms of obligations of state on procedure (Kaboğlu, 1996: 93 ff. ; Yurtcanlı Duymaz, 2013: 184).
- Defining "the rights of property" of the parties who have conflict of interest, is the other point of Coase's analysis. How should we recognise "the right to property" in this part of theorem? As the right to property in the narrow (The Constitution of Republic of Turkey, Article 35; the European Convention on Human Rights, Additional Protocol No 1, Article 1)? Or as the right of property which is a top title of other rights? According to us the latter will be a more accurate approach. After identifying the rights of property, there is another issue in the judgements of TCC: What is scope of the protection of these rights? It can be realised that the right to the environment, the principle of the protection and development of the environment are also included in the scope of the constitutionality review, when the judgements of the TCC are examined. The protection of the environment itself is a consideration criteria in constitutionality review (TCC, No.2013/89, No.2014/116, Date: 3/7/2014; TCC, No.2012/87, No.2014/41, Date: 27/2/2014; TCC, No.2010/75, No.2011/150,

Date: 3/11/2011). Thus the list of norms (of the Constitution of the Republic of Turkey) which are used as consideration criteria in constitutionality review is wider. However, the right which is protected via individual application is "the right to live in a healthy environment" (TCC, App.No: 2012/2552, Date: 25/2/2016; TCC, App.No: 2013/6714, Date: 21/04/2016; TCC, App.No: 2014/1767, Date: 06/12/2017; TCC, App.No: 2013/6587, Date: 24/03/2016; TCC, App.No: 2013/6595, Date: 21/04/2016; TCC, App.No: 2014/4686, Date: 1/2/2018). The list of norms which are used as consideration criteria in the individual application is more limited. This difference is because of the *ratione materiae* of the TCC in the individual applications (The Constitution of Republic of Turkey, Article 148/3, Law No.6216, Article 45/1).

- In the context of "principle of reciprocity" in Coase's theorem: It can be told that the judgements of TCC include this principle regarding the environmental externalities. This principle is referred to as "fair balance" in the literature of the TCC. The TCC examines whether there is a fair balance between private costs and social costs and makes a decision accordingly (TCC, App. No: 2014/1989, Date: 15/06/2016).

#### 4. Conclusion

While Coase theorem is emphasizing bargaining processes in the market for the solution of externalities and is neglecting the government's interventionist solutions, it has raised considerable repercussions in the literature. However, the existence of transaction costs made Coase suggest a second best solution. Coase's second best solution is that the judicial system should work effectively by defining property rights ideally. Alternative solution of Coase is a more realistic solution for current market structure. Decisions of the Constitutional Court of the Republic of Turkey are consistent with certain aspects of the Coase theorem as well as including some differences.

**Key Words:** Coase theorem, externalities, property rights, constitution, individual application.

**JEL Codes:** KO, H23.

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# **Overview of Proposed Factors on the Presence of Permanent Establishment in the Digital Economy Within the Scope of Beps Action 1**

**Gökhan Sarıçimen<sup>1</sup>**

## **1. Introduction**

The economical incidence of information and communication technologies is called 'digital economy'. The digital economy is a comprehensive and new subject that including the situations that arise at every stage of the economy. With regards to taxation, there are some deficiencies in definition, scope and subject of digital economy. The main question of this paper is that what will be the response of the permanent establishment concept in the traditional economy to the digital economy. In this context, the purpose of paper is that an assessment and exemplification of the recommended factors that determining the presence of a permanent establishment in the digital economy and that based on OECD BEPS Action Plan 1 (OECD Base Erosion and Profit Shifting Action 1: Addressing the Tax Challenges of the Digital Economy). Factors related to the determination of a permanent establishment's presence in the digital economy has been generated on the basis of OECD Action 1. Within the scope of the study there are as follows; firstly, the conceptual framework of digital economy and permanent establishment and the importance of the digital economy in terms of taxation; secondly, the recommended factors for determining the presence of a permanent establishment in the digital economy; finally, a number of policy proposals will be referred to in the light of this information.

## **2. Conceptual Framework**

The term "digital economy" refers specifically to the recent and still largely unrealized transformation of all sectors of the economy by the computer-enabled digitalization of information (Brynjolfsson & Kahin, 2000: 2). In short, digital economy is the digitalization of current and future information in the economy and is thus a part of every business in every sector of the market (Dyson, 2002: 134). The OECD defined the digital economy that; increasingly becoming the economy itself. For this reason, OECD emphasized that it would not be possible to separate the economy from the digital economy in terms of tax purposes (OECD, 2015: 11). Because, according to the World Economic Forum 2016 Global Information Technology Report, digital technologies affect R&D and innovation, product and process innovation, business model innovation, expanding market size, reduction of entry barriers, and consumers having full knowledge (Baller et. al., 2016: 7).

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Digital economy leads to three main problems in terms of taxation. These are: characterization (is the quality of income generated in the digital economy), nexus (is economic presence in the digital economy) and data (is the value to be attributed to the data) problems (OECD, 2015: 100-106).

One of the tax-related questions in the digital economy is what will be the response of the permanent establishment concept, the products and services of traditional economy enterprises, in the digital economy. International and national tax rules have established on the physical presence condition that countries can levy taxes on income derived from activities within their jurisdiction. The criterion of this physical presence is usually related through permanent establishment or dependent agents. According to Article 5 of the Model Agreements, the concept of permanent establishment is defined as "a fixed place of business through which the business of an enterprise is wholly or partly carried on" (OECD, 2017: 31-33, UN, 2001: 10-12). In terms of Article 156 of the Tax Procedures Law defines the establishment: "Establishment in commercial, industrial, agricultural and professional activity; shops, ..., ferry boats, etc., which are allocated or used for the purpose of carrying out commercial, industrial, agricultural or professional activities". In this respect, the minimum qualifications that a establishment should carry are specified in the commentaries Article 5 of the OECD Model Tax Agreement. According to this; a place of business, geographically fixed, temporally fixed, at the disposal of the enterprise, and through which the business of an enterprise is wholly or partly carried on (OECD, 2017: 118-169, Russo, 2007: 39-41).

There are three separate views on taxation of digital-based transactions. The reasons for advocating the taxation of digital-based transactions are as follows: Tax base shrinking; providing tax equity between digital trade and traditional trade; the possibility of new types of tax havens; those who do not have access to digital facilities can access products more cost effectively. Against those reasons, who think that digital-based transactions should not be taxed believe that intermediary companies will move to other sectors. In this respect, goods and services can be offered to consumers with lower cost and lower price. This emphasizes that economic growth will accelerate. According to another approach, as emphasized in the studies prepared by the OECD, tax should be neutral and equal between electronic and traditional trade (Tekin & Vural, 2004: 333; Ferhatoğlu, 2006: 50-51).

### **3. Proposed Factors for the Presence of a Permanent Establishment in the Digital Economy**

The digital economy removes geographical border in commercial relations and so goods and service deliveries and payments made to them are digital. This situation makes it difficult to determine the taxable transactions or the country in which the tax will be collected (Ferhatoğlu, 2006, 50). At this point, the nexus problem emerges as the ability of a company to have digital presence within the economy of another country without being under a tax obligation due to the inadequate connection between the existing international rules (Birinci & Eser, 2017).

In Action Plan 1, there are proposals to identify how the enterprises operating in a country are operating digitally in that country. It is suggested that three basic factors can be used for

the determination of the digital entity, namely revenue-based factors, digital factors and user-based factors. Revenue-based factors; is based on the assumption that the income continuously obtained from one country is one of the potential indicators of economic existence in that country and it is prescribes a threshold value for the determination of digital existence. Digital factors suggest that tools such as domain name, local digital platforms and local payment options that enable the digital economy to be controlled remotely can be used as a determinant of physical economic existence. In the case of user-based factors, the user base and related data entries are assumed to be indicators of continuity and economic purpose, and it is suggested that the determinants may be monthly active users, digital contracts and digital data (OECD, 2015).

#### **4. Conclusion**

In the Model Agreements and most domestic laws, the lack of a digital establishment concept shows that there is a legal ambiguity. Referring to the situation in Turkey; the new Tax Procedure Law, which is still in the form of a draft, is also given to the definition of a virtual establishment. In this respect, it is expected to solve the definition problem in the digital economy. In addition, Kuwait has adopted its definition of virtual service permanent establishment in domestic law and will apply its definition in national and international proceedings. However, Model Agreements do not have a definition of digital establishment and have a legal advantage. Therefore, the validity of Kuwait's practice is uncertain (EY, 2015).

Although some measures have been taken or will be taken by the countries towards digital economy; Turkish legislation and international legislation do not have a complete set of binding rules that define the definition, scope, conditions and exceptions of the digital establishment. However, the number of users of digital activities is increasing day by day, and these activities continue to develop in a dynamic manner within them. As a result, need to be assessed by tax authorities and provide an international consensus for proposed digital establishment factors by OECD.

**Key Words:** BEPS, Digital Economy, Nexus Approach, Permanent Establishment.

**JEL Codes:** H25, H26, K34.

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## Exploring the Constraints on the Use of Fiscal Policy

Malcolm Sawyer<sup>1</sup>

### 1. What Should the Objectives of Fiscal Policy be?

This should be seen as a subsidiary question to those of purposes of public expenditure, structure of tax regime etc.

The simplest representation of that question is the contrast between two basic views. One mainstream view is that there has to be some form of 'balanced budget' (for example, whether total budget balanced over the business cycle, structural budget, current budget). The other view, the 'functional finance' approach (coming from Lerner, Kalecki), is that fiscal policy should be targeted on achieving high levels of employment and capacity utilisation which in general requires an unbalanced budget.

Fiscal policies and budget positions may in practice be used for other purposes, e.g. addressing current account issues by deflating demand.

### 2. The Endogeneity of the Budget Position in the Short-Run and the Long-Run

The basic national income accounting relationship is  $S - I + T - G + CAD = 0$ , where S private savings, I private investment, T tax revenue, G government expenditure, CAD current account deficit.

Re-arranging:  $G - T$  (public deficit) =  $S - I + CAD$  (private surplus)

There are always Issues of causation between the three components.

The basic question is whether there are economic forces which would ensure that  $S = I$  (and also that  $CAD = 0$ ) for then  $G = T$  and a balanced budget results.

The endogeneity issue: governments set expenditure plans and tax rates, but outcome in terms of budget deficit depends on private behaviour as reflected in savings and investment decisions.

### 3. Is a Balanced Budget Feasible?

A balanced budget ( $G - T = 0$ ) requires that  $S - I + CAD = 0$

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The orthodox view has been a combination of 'natural rate of interest' approach (resting on a loanable funds perspective), 'Ricardian equivalence', and Say's Law would bring savings and investment into line at a full employment level. The post Keynesian view is that there are no such forces, and that full employment may often (but not always) require a substantial budget deficit.

#### **4. Structural Balanced Budget**

Structural budget position is the one which would result if economy were operating at 'potential output' (which is often viewed as the level of output at which inflation would be constant). There are many difficulties of calculating 'potential output' even if it actually exists (it is a concept based on a model of the economy which may not be an accurate representation of the real world).

The case against balanced structural budget requirements (such as those adopted by the eurozone): it is generally acknowledged that enforcing balanced budget in a recession is folly; similar arguments apply to seeking to secure a balanced structural budget.

#### **5. What are the Limits on the Budget Position?**

The budget deficit is to be less than or equal to  $S^* - I^* + CAD^*$  where \* indicates the position which would result if economy were at full employment and capacity.

The scale of that deficit does depend on the savings and investment functions: e.g. if 'animal spirits' and hence propensity to invest high, then budget deficit relatively small.

#### **6. Golden Rule**

The golden rule is that the current budget should be in balance over the business cycle, but that government borrowing can be undertaken to fund public investment

The rationale is by way of comparison with private sector that it is deemed prudent to borrow only for investment purposes on the basis that investment yields future returns.

There may be reasons to view public investment in terms of social rate of returns, which obviously differs from private rate of return

For demand and resource use perspective, public investment is not distinguishable from current expenditure

#### **7. (Un)sustainability**

The sustainability of deficit position depends for a primary budget deficit on balance between rate of interest on government borrowing and growth rate.

For the overall budget deficit, there will be a convergence of the debt:GDP ratio on deficit:GDP ratio divided by the nominal rate of growth.

From the relationships  $S - I + T - G + CAD = 0$  for each element the question can be raised with regard to sustainability. A notable example would be the question of whether current account deficit can be sustained as it involves borrowing from overseas. The sustainability of the other elements likely to be more significant than for the government deficit (and also within the private sector there is issue of sustainability of household borrowing and debt).

## 8. Full Capacity Budget Position

Setting budgetary policy to secure full employment requires seeking to budget deficit  $= S^{\wedge} - I^{\wedge} + CAD^{\wedge}$  where  $\wedge$  after variable indicates level of that variable if economy working at full employment and full capacity.

There will be difficulties of calculating what such a budget position would be and then setting tax rates and public expenditure levels to be consistent with the full capacity budget position.

It requires some degree of 'fine tuning' – adjusting the budgetary policies as savings and investment decisions change.

The need to find a metric to judge whether budget deficit is 'excessive' (or 'deficient').

Does it offer too much temptation to policy makers.

## 9. Debt Limits

Many have argued that fiscal policy has to be constrained to avoid debt exceeding % of GDP – e.g. eurozone rules of 60 per cent of GDP (though frequently breached)

The Reinhart-Rogoff tipping point arguments to a debt: GDP ratio limit of around 90 per cent

There are doubts on the empirical evidence: from the casual observation (UK in 1945, Japan at present had debt ratios of over 250 per cent without damage) to the Hendon et alai paper and others which cast doubt on the validity of the Reinhart-Rogoff findings.

There are questions of the direction of causation -- would high debt ratio cause slow growth, or slow growth cause high debt ratio.

When government borrows provided that private sector willing to lend, then in general there will be a willingness of public to hold the resulting level of government debt.

On a long term the perspective debt to GDP ratio should be full capacity budget deficit ratio divided by  $g$  (nominal growth).

## **10. A Concluding Comment**

There are limits on the appropriate size of budget deficits and the scale of government etc.; it is a failure to reach the appropriate limits which is the issue.

I do not underestimate the difficulties in operating 'functional finance': difficulties of knowledge, difficulties of implementation, and the political constraints. But using the budget position to secure highest sustainable rates of employment should be the purpose of fiscal policy.

## Testing the Wagner Law in Turkey: 1960 – 2016 Period Analysis with Musgrave's and Mann's Models

İhsan Cemil Demir<sup>1</sup>

Ali Balkı<sup>2</sup>

### 1. Introduction

There are many views on the relationship between public spending and GDP. One of these is the hypothesis, which was put forward by German scientist Adolf Wagner in 1883, known as the Wagner Law. According to the Wagner Law, the increase in public expenditure depends on GDP ve An increase in GDP causes a further increase in public expenditures. There are many models in the literature that test the Wagner Law. In this study, 1960 - 2016 period was tested with Musgrave's and Mann's Models whether the Wagner Law is valid for Turkey or not. The cointegration analysis and the Granger Causality Test were applied when the Wagner Law was tested for the mentioned period. In the cointegration analysis, the ARDL Boundary Test and Delayed Distributed Autoregressive Model (ARDL) was chosen.

In the study, firstly the general theoretical framework related to the topic is dealt with. Then, the studies have been presented which test the Wagner Law and the used methods, analysed period and the obtained results. Following the explanations of the data sets, methods and models used in the experiment, the results of the analysis and the tests carried out to test the Wagner Law were presented and evaluated.

### 2. Examples which Test the Wagner Law

There are a number of studies which test the validity of Wagner Law in Turkey. In these studies, the total public expenditures are taken into account and specific public expenditures such as education, health and defense are considered. While some of these studies have accepted the Wagner Law, some have been rejected.

Yamak ve Zengin (1996), in their study using the Kalman filter method, tested the Wagner Law in Turkey for the period 1950-1994 and reached the conclusion is valid.

Uluturk (2001), examined by regression analysis for 1963-1994 period concludes Wagner Law does not apply in Turkey.

Artan ve Berber (2004) discussed the 1987-2003 period and cointegration and Granger causality test with their study they concluded that the Wagner Law does not apply in Turkey.

Ay (2006) analyzed the 1980-2005 period with VAR analysis and found that the Wagner Law is valid.

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Telek ve Telek (2016) have reached the conclusion that the Wagner Law for the period 1998-2015 is not applicable in their study using VAR analysis, Granger causality test and Impact-Response analysis.

### 3. Testing the Wagner Law in Turkey for 1960-2016 Period

#### 3.1. Data Set and Model

The ratio of public expenditures to gross domestic product ( $G / Y$ ) and real gross domestic product ( $Y$ ) for the period 1960 - 2016 was obtained from the World Bank's Electronic Database System. The population data of the same period ( $P$ ) was obtained from the Turkey Statistical Institute (TSI) database.

In this study, Wagner Law was tested through the following two models:

$$(1) \quad \text{Musgrave's Model: } \frac{G}{Y} = \alpha + \beta \left( \frac{Y}{P} \right) + \lambda_t \rightarrow \beta > 0$$

$$(2) \quad \text{Mann's Model: } \frac{G}{Y} = \alpha + \beta(Y) + \lambda_t \rightarrow \beta > 0$$

While the Wagner Law is testing in the 1960-2016 period for Turkey, the cointegration model Autoregressive Distributed Lag (ARDL) and ARDL Bound Testing (Testing Bounds) were selected and applied. Granger Causality Test was conducted to determine the direction of the relationship between public expenditure and gross domestic product.

#### 3.2. Optained Findings

**Table 1: Results of the Unit Root Test**

Variables	ADF		PP		Result	
	Level	First Difference	Level	First Difference		
G/Y	-2.246	-7.318	-2.519	-7.321	$I_1$	
Y/P	2.578	-6.097	0.307	-6.115	$I_1$	
Y	4.089	--	3.252	-4.983	ADF	PP
					$I_0$	$I_1$
Critical Value	-3.50	-2.91	-3.49	-2.91		

Not: Critical values were obtained from MacKinnon (1996) with a significance level of 0.05; Trendy and fixed for level values; the values of the fixed model for the difference series from the first grade.

As seen in Table 1, , while the independent variable, Y series, is stable ( $I_0$ ), the result is that the first-order differences of the Y / P and the dependent variable G / Y series from the independent variables are stationary ( $I_1$ ).

**Table 2: Results of ARDL Boundary Test**

Models	Musgrave's Model	Mann's Model
	ARDL (2,1)	ARDL (1,1)
F statistics	5.346	5.896

According to the boundary test results obtained from Musgrave's and Mann's Models, both models were found to be significant or cointegrated at 5% level.

According to the Musgrave's Model, the real GDP per capita and the ratio of public expenditures to GDP co-exist at a level of 5% significance. According to the Mann's Model, the real GDP and the ratio of public expenditures to GDP co-exist at a level of 5% significance.

It is predicted that the expected coefficient value in Musgrave's Model is greater than zero [ $\frac{G}{Y} = \alpha + \beta(\frac{Y}{P}) + \lambda_t \rightarrow \beta > 0$ ]. As a result of the ARDL test, the  $\beta$  value was determined as 0.000773 and the coefficient value determined was significant for the Musgrave's Model. So in the long term; a unit increase in real GDP per capita leads to an increase in public expenditures more than one unit. Thus, according to Musgrave's Model Wagner Law applies to the 1960-2016 period for Turkey.

The Mann's Model also predicts that the expected coefficient value is greater than zero [ $\frac{G}{Y} = \alpha + \beta(Y) + \lambda_t \rightarrow \beta > 0$ ]. As a result of the ARDL test, beta value is determined as 0.000000 and the coefficient value can not be interpreted because it is not greater than zero in the Mann's Model. So in the long term; According to the Mann's Model, the relationship between real GDP and public expenditure is not interpreted.

As a result of the short-term ARDL test made according to the Musgrave's Model, the value was determined as -0.000935, and since the coefficient value is less than zero, it is not significant from the Musgrave's Model point of view.

The Mann's Model also predicts that the expected coefficient value is greater than zero. However, the  $\beta$  value is determined to be 0.000000 and the coefficient value can not be interpreted because it is not greater than zero in the Mann's Model. In other words, according to Musgrave's and Mann's Models, there can not be any relation between real GDP and public expenditures in the short term.

#### 4. Conclusion

In tests conducted using data from the 1960-2016 period for Turkey, according to the Mann's Model, there is no cointegration relation between the ratio of public expenditures to

GDP ( $G / Y$ ) and real GDP ( $Y$ ). In the cointegration analysis made according to the Musgrave's Model, the existence of a cointegration relation between the ratio of public expenditures to GDP ( $G / Y$ ) and the real GDP per capita ( $Y / P$ ) was determined. According to Musgrave's Model in Turkey 1960 - 2016 period it has reached the conclusion that the Wagner Law applies. As a result of five confidence tests made specifically for the Musgrave's Model, it was found that there were no problems in the model, meaningful and the results were reliable.

Finally, as a result of the Granger Causality test to support cointegration analysis, it is seen that there is a correct relationship between long term (1960-2016) per capita real GDP to public spending to GDP ratio ( $Y/P \rightarrow G/Y$ ). Thus, in the long run, the results of the causality test overlap with the results of the cointegration analysis. In the short term, on the contrary to the long term, it is seen that public spending has a relation to GDP per capita in terms of real GDP per capita ( $G/Y \rightarrow Y/P$ ). In other words, the Wagner Law does not apply in the short term. On the contrary, the existence of a relationship between public expenditures and GDP, which supports Keynes, has been established.

**Keywords:** Wagner Law, Public Expenditures, Cointegration, Granger Causality, ARDL Bound Test, ARDL.

**JEL Codes:** H50, H59, B23

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# The Validity of Wagner's Law in Turkey Economy: Meso-Level Analysis

Birol Karakurt<sup>1</sup>

Şadiye Okutan<sup>2</sup>

## 1. Introduction

Inferential and statistical researches on public expenditures; it provides important evidence at the point of the size, sustainability and effectiveness of the public economy, and has the potential to help policy makers make more effective decisions. Thus, efficiency of public expenditures is increased by contributing to directing scarce public revenues to correct spending items.

Literature investigate the validity of Wagner's Law in the Turkish case reveals that studies carried out are the macroeconomic aspect of the topic and sub-categories of public expenditure. This study aims to contribute to the empirical literature by adding a new one to the existing limited studies interested in Wagner's Law which analyses the relationship between the regional public expenditure and regional economic growth.

This paper investigates the relationship between of public expenditure and real Gross Domestic Product in Turkey in the period 2005-2014 by the use of statistics on at a regional level. In this study carried out by used the 10-year time dimension and 25-cross sectional panel data set and it covers 26 sub-regions of Turkey. During the investigating of the relationship between the variables have been used Peacock and Wiseman econometric approach model which was introduced in 1961.

Thanks to information obtained from the assumption that test each estimating method most appropriate for public consumption. Panel data analysis method according to research findings obtained using; all of the models are statistically significant. Public expenditures are income elasticity coefficient of arguments showing the value of less than one on all models. The resulting findings, Turkey during the period of the increase in income that occurred 2005-2014 in public spending, an increase of more than the increase that occurred. In this study, public spending and revenue over a given period between the Wagner's Law is not validity variables has been reached to the conclusion.

In addition to panel regression analysis, was carried out the Westerlund Panel Co-integration test. Co-integration test findings did not act together in the long run of variables and therefore the relationship between co-integration. According to the Westerlund Error Correction model Panel co-integration test's results Wagner's Law of is not validity between the public spending and the income variables.

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## 2. Data Set and Empirical Model

### 2.1. Data Set and Variables

The panel data set is prepared for the study investigating the relationship between under functional classification regional public expenditures and regional real GDP (GDP) values. It consists of 25 years (t) and 25 units (t) for a total of 250 (10\*25) observations. Units represent 25 sub-levels of the Turkish economy, excluding the TR81 (Zonguldak, Karabük and Bartın) region<sup>1</sup>.

The data covering the 2005-2014 period was analyzed by the natural logarithmic values obtained from the data bases of the Turkish Statistical Institute (TURKSTAT) and the General Directorate of Accounting. The regional GDP and public expenditure values were taken from TURKSTAT and made real with the overall CPI index<sup>2</sup> prepared for level 2. The abbreviations and data sources for the variables used in the study are summarized in Table 1.

**Table 1: Variables and Data Source**

Variable	Explanation	Data Source, Period and Panel Data Type
LRGKH	Logarithmic Real General Public Services	DGPA* (2005-2014), Balanced Panel Data
LRSVH	Logarithmic Real Defense Services	DGPA (2005-2014), Balanced Panel Data
LRKDVGH	Logarithmic Real Public Order and Safety Services	DGPA (2005-2014), Balanced Panel Data
LREIVH	Logarithmic Real Economic Affairs Services	DGPA (2005-2014), Balanced Panel Data
LRCKH	Logarithmic Real Environmental Protection Services	DGPA (2005-2014), Balanced Panel Data
LRITRH	Logarithmic Real Housing and Community Amenities Services	DGPA (2005-2014), Balanced Panel Data
LRSAGH	Logarithmic Real Health Services	DGPA (2005-2014), Balanced Panel Data
LRDKVDH	Logarithmic Real Recreation, Culture and Religion Services	DGPA (2005-2014), Balanced Panel Data
LREH	Logarithmic Real Education Services	DGPA (2005-2014), Balanced Panel Data
LRSVSYH	Logarithmic Real Social Protection Services	DGPA (2005-2014), Balanced Panel Data
LRGDP**	Logarithmic Real Gross Domestic Product Turkstat	TURKSTAT (2005-2014), Balanced Panel Data

**Note:** \*Represents the Directorate General of Public Accounts. \*\*The GDP and public expenditures series has been made real with the regional (2003 = 100) based CPI index obtained from Turkstat.

<sup>3</sup> Because of the lack of observations in the data set, the TR81 (Zonguldak, Karabük and Bartın) region was excluded from the analysis.

<sup>4</sup>Real GDP= (Nominal GDP<sub>t</sub>/ CPI<sub>t</sub>)\*100 is real merged using the formula.

## 2.2. Empirical Model

In 1883, the German Economist Adolph Wagner argued that in the face of the rise in national income, government spending increased at a higher rate than the rate of national income growth, and this theory was called the "Wagner's Law" in the economic literature (Wijeweera & Garis, 2009: 2). The presence of a positive covariance relationship between government spending and national income was first revealed by the study conducted by Wagner in 1911 (Lamartina & Zaghinib, 2007: 1).

In the scope of this study aimed at testing the validity of the Wagner act between regional public expansion and regionals RGP variables, the econometric model created by peacock and Wiseman (1961) and shown in equation 1 (Yamak and Küçükkale, 1997: 7) was realized with panel data regression method.

$$LKH_{it} = c + \beta LRGSYIH_{it} + \varepsilon_{it} \quad (1)$$

In the equation number 1;  $LKH_{it}$  is the dependent variable (real regional public expenditure) where  $i$  = entity and  $t$  = time, shows,  $LRGDP$ , real gross domestic product series,  $\varepsilon_{it}$ , error term of the equation and finally  $c$  is a fixed term of the equation.

According to the Peacock and Wisemen approach; national income is modeled as the function of public expenditure, which is expected to increase public expenditure as national revenue increases. In order to test the validity of the Wagner's Law double logarithmic model was used. This is the  $\beta$  coefficient of the variable of the model according to  $LRGSYIH$  shows the elasticity  $LKH$ .

According to the model used in the research; to be granted, the decision of the Wagner's Law applies to the relationship between the variables is positive and the direction of elasticity coefficient for the variable  $LRGSYIH$  must be greater than one (Işık & Alagöz, 2005: 69; Receptoğlu, 2016: 518). The validity of all the findings obtained, the analysis of the model depends on whether statistically significant because its not been proven statistically significant research findings outside the confidence interval for the reliability of the results cannot be proven.

## 3. Econometric Method and Findings

### 3.1. Control of Between the Cross-Sectional Units Dependence

Consisted of the time series and cross sectional unit combination this is because must be investigated the cross-sectional dependence for variables. Because of the depending on the spatial, unobserved or unobservable effects may be formative cross-sectional dependence issues (Baltagi & Pesaran, 2007: 229). In case of the presence of the matter of cross-section dependence between the cross-sectional dependence problem may lead to be incorrect and incoherent regressor estimators (Chudik & Pesaran, 2013: 2). In this study, the presence of cross-sectional dependency was investigated through cross-sectional dependency tests.

Pesaran (2004), developed the so-called “Pesaran CD” test for the conditions of  $N > T$ , and the null hypothesis of the test was established as “cross-sectional independence between units” (Pesaran, 2004: 5).

This study used panel data set is larger than the size of the volume size in the time unit for the presence of cross-sectional dependence, Breush-Pagan LM and investigated and results with Pesaran  $CD_{LM}$  tes are summarized in Table 2.

**Table 2: Cross-Section Dependence Test Results**

Variables	Pesaran $CD_{LM}$	Result
LRCKH	3.87***	Ho is rejected.
LRDKVDH	8.67***	Ho is rejected.
LREH	4.23***	Ho is rejected.
LREIVH	3.19***	Ho is rejected.
LRGKH	13.52***	Ho is rejected.
LRITRH	6.95***	Ho is rejected.
LRKDVG	2.98***	Ho is rejected.
LRSAGH	9.63***	Ho is rejected.
LRSVH	22.49***	Ho is rejected.
LRSGVSY	6.64***	Ho is rejected.
LRGDP	-0.79	Ho is not rejected.

Note: \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.

According to; the results of the cross-sectional dependency test statistics summarized in Table 2. The  $H_0$  hypothesis of the test is expressing the cross-sectional independence was rejected at the 1% level of significance. This situation, in the majority of the units composing the panel and the finding of cross-sectional dependence was obtained between the units. Therefore, taking into account the analysis in cross-sectional dependence on second generation unit root test is the test that was developed by Pesaran CADF.

### 3.2. Panel Unit Root Test

The variables used in this study is the cross-section between units addiction series unit root research Pesaran (2007), developed by the A Cross-Sectionally Augmented Dickey-Fuller (CADF) is made with the test. The second generation of unit root tests CADF test,  $N > T$  condition produces effective results matching panel datasets. The results of the test the CADF are summarized in Table 3.

**Table 3: Pesaran CADF Panel Unit Root Test Results**

Variables	Pesaran CADF Intercept	Variables	Pesaran CADF Intercept
LRCKH	0.695	$\Delta$ LRITRH	-5.935***
$\Delta$ LRCKH	-0.535	LRKDVGH	-0.152
LRDKVDH	-0.374	$\Delta$ LRKDVGH	-4.288***
$\Delta$ LRDKVDH	-2.268***	LRGDP	-2.147***
LREH	-1.207	$\Delta$ LRGDP	-7.142***
$\Delta$ LREH	-4.620***	LRSAGH	-4.629***
LREIVH	-1.066	$\Delta$ LRSAGH	-8.524***
$\Delta$ LREIVH	-4.448***	LRSVH	-2.632***
LRGKH	0.216	$\Delta$ LRSVH	-6.450***
$\Delta$ LRGKH	-3.361***	LRSGVSY	-2.877***
LRITRH	-2.255***	$\Delta$ LRSGVSY	-6.281***

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.  $\Delta$  indicates the difference operator. Because of the time dimension is be shortly the analysis was performed at the zero lag level.

According to Pesaran CADF unit root test results, all variables except the LRCKH, LRDKVDH, LREH, LREIVH, LRGKH ve LRKDVG series are stable at level  $I(0)$ . In order to avoid the spurious regression<sup>1</sup> problem that may occur in the panel regression estimation, the first differences of the LRCKH, LRDKVDH, LREH, LREIVH, LRGKH and LRKDVG series were provided and all the series to be used in panel regression analysis were stable.

### 3.3. Likelihood Ratio Test Results

Which is the subject of the analysis models in order to identify the most appropriate estimation methods to models the effect of unit and/or time needs to be determined that it contains. Therefore, the rate of test can be applied to model and test results are reported in Table 4.

**Table 4: Likelihood Ratio Test Results**

Models	Unit Effect $\chi^2$ Statistic	Time Effect $\chi^2$ Statistic
Model 1	0.24	0.00
Model 2	0.17	0.00
Model 3	0.14	0.00
Model 4	0.15	0.00
Model 5	0.31	0.00
Model 6	0.51	0.00
Model 7	1.58**	2.18*
Model 8	2.66***	12.46***
Model 9	0.22	0.00
Model 10	0.05	0.00

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.

<sup>1</sup>It is defined as a problem that may cause different relationships between predictors than they actually are. It was proposed by Granger and Newbold (1974).

According to Likelihood Ratio test results; except for the Model 7 and 8, all of the models does not exist unit and time effects. For this reason, volume and time-effect model is appropriate to the classic model of prediction of. Model 7 and Model 8 which are contain the unit and time effect because of the reason; these effects need to be determination which to be fixed or random effect. Therefore, the Model 7 and 8 tested and developed by Hausman-specifications for results is reported in Table 5.

**Table 5: Hausman Spesification Test Results**

Models	$\chi^2$ Statistic Value	Appropriate Model
Model 7	0.01	Random Effect Model
Model 8	0.66	

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.

In order to determine the appropriate model to be estimated, hypothesis tests for models were investigated. For this purpose, the test developed by Wooldridge (2002) was used to determine the autocorrelation problem. The  $H_0$  hypothesis of this test was established as there is no autocorrelation of the first order in the model.

The test developed by Breush-Pagan (1979)/Cook-Weisberg (1983) was used to determine whether there is a problem with heteroscedastiscity.

It was established the  $H_0$  hypothesis of the test that there is constant variance in the model. The results of the tests were reported in Table 6.

**Table 6: Wooldridge and Breush- Pagan / Cook- Weisberg Test Sonuçları**

Modeller	Wooldridge'in Testi F İstatistiği	Breush-Pagan/Cook-Weiesberg Testi $\chi^2$ İstatistiği
Model 1	3.391*	0.12
Model 2	2.561	4.25**
Model 3	5.014**	0.31
Model 4	29.810***	4.09**
Model 5	23.827***	0.21
Model 6	74.059***	0.02
Model 7	1.406	3.20*
Model 8	0.655	0.04
Model 9	13.336***	0.03
Model 10	9.585***	2.84

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.

According to the Wooldridge test results;  $H_0$  hypothesis was rejected in the Model 1, Model 3, Model 4, Model 5, Model 6, Model 9 and Model 10. This models have autocorrelation problem. In this reason, this models estimated the robust estimator. The  $H_0$  hypothesis was not rejected in the Model 2, Model 7 and Model 8.

According to the Breush-Pagan/Cook- Weiesbergtest results;  $H_0$  hypothesis was rejected in the Model 2, Model 4 and Model 7. This models have heteroscedasticity problems. In this reason, this models estimated the robust estimator. The  $H_0$  hypothesis was not rejected in the Model 1, Model 3, Model 5, Model 6, Model 8, Model 9 and Model 10.

### 3.4. Panel Regresyon Analysis Test Results

Based on the information obtained from the hypothesis tests, the most appropriate estimation method for the models has been determined. Model 7 and model 8 with unit and time effects in the dependent variable that is used as the income variable in order to determine the effect of public expenditure on the unit and time of each unit and a dummy variable for time was created. The dummy variables created are added as explanatory variables to the right side of the models. In order to avoid falling into dummy variable trap, the first region and the first year are not included in the model. The results of the regression analysis were reported in Table 7 and Table 8.

Study of long-term relationship between variables used to investigate non-stationary panel data models were made available for Westerlund Panel Co-integration test. Westerlund (2007), belongs to the test proposed by the  $H_0$  hypothesis has no relationship was established in the form of co-integration. Results of the co-integration test were reported in Table 9.

**Table 7: The Result of the Estimation of Model 1, Model 2, Model 3, Model 4 and Model 5**

VARIABLES	DEPENDENT VARIABLES OF THE MODELS				
	Model 1	Model 2	Model 3	Model 4	Model 5
LRGDP	$\Delta LRCKH$	$\Delta LRDKVDH$	$\Delta LREH$	$\Delta LREIVH$	$\Delta LRGKH$
L.Dependent Variable	-0.06223	0.1837***	0.1546	0.1020	-0.0549
Constant Term	-0.2577 ***		-0.4320***	-0.5050***	-0.4784***
R <sup>2</sup>	13.8058	-25.8075**	-30.200**	-13.3143	68.0887 ***
F Statistic	-	-	-	-	-
Wald $\chi^2$ Statistic	9.00**	7.46**	50.76***	13.50***	69.96***
Observation	200	200	200	200	200
Region Number	25	25	25	25	25
Panel Regression Method Suitable for Model	Flexible Generalized Least Squares Regression-Ar(1) Correlation-Parks-Kmenta Estimator-Dinamic Model	Flexible Generalized Least Squares Regression-Heteroscedastic-Parks-Kmenta Estimator	Flexible Generalized Least Squares Regression-Ar(1) Correlation-Parks-Kmenta Estimator-Dinamic Model	Flexible Generalized Least Squares Regression-Ar(1) Correlation and Hetaroscedastic-Parks-Kmenta Estimator-Dinamic Model	Flexible Generalized Least Squares Regression-Ar(1) Correlation-Parks-Kmenta Estimator-Dinamic Model

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.

**Table 8: The Result of the Estimation of Model 6, Model 7, Model 8, Model 9 and Model 10**

	DEPENDENT VARIABLES OF THE MODELS				
	Model 6	Model 7	Model 8	Model 9	Model 10
Independent Variables	$\Delta$ LRKDVGH	LRITRH	LRSGH	LRSAVH	LRSGVSYH
LRGDP	-0.02893	0.2496***	-0.0995	-0.0828	0.0496
L.Dependent Variable	-0.5108***	-	-40.8407	0.6734***	0.2392***
Constant Term	2,5041	99.277***		55.7579	89.9253***
D2****		31.4251*	-40.8407		
D3		8.6636	-30.1474		
D4		-26.8766	-5.5457		
D5		52.9149***	12.3063		
D6		0.0014	48.4466*		
D7		9.6767	4.3239		
D8		40.5392**	33.6886		
D9		47.6866***	-29.7784		
D10		34.7025*	6.6043		
D11		31.2893*	47.1442*		
D12		-14.0315	13.0201		
D13		19.8799	66.9231**		
D14		43.4653**	-14.2240		
D15		42.7573**	29.2942		
D16		71.6022***	-60.8325**		
D17		28.718	-19.1943		
D18		20.2742	21.5381		
D19		40.6680**	7.13148		
D20		30.8289*	-41.9052		
D21		-4.4997	44.2885*		
D22		34.8107*	45.8708*		
D23		71.277***	14.6899		
D24		-34.5201*	61.5341**		
D2006		-51.4397**	-42.8563**		
D2007		-50.6215**	-41.3834**		
D2008		-25.5529	-24.1055		
D2009		-24.1921	-39.5386**		
D2010		-35.3364	8.7486		
D2011		-10.2054	-9.2006		
D2012		-50.5240*	2.7254		
D2013		-3.8354	-11.8222		
D2014		-	-		
Wald $\chi^2$ Statistic	57.64***	Robust Estimator	86.75***	167.98***	13.06***
Within R <sup>2</sup>		0.1527	0.1189		
Between R <sup>2</sup>		0.9493	0.9417		
Overall R <sup>2</sup>		0.2805	0.3112		
Observation	175	225	225	200	200
Region Number	25	25	25	25	25
Panel Regression Method Suitable for Model	Flexible Generalized Least Squares Regression-Ar(1) Correlation-Parks-Kmenta Estimator-Dinamic Model	Random Effect Model with Dummy Variables, Huber, Eicker ve White Estimator	Random Effect Model with Dummy Variables	Flexible Generalized Least Squares Regression-Ar(1) Correlation-Parks-Kmenta Estimator-Dinamic Model	Flexible Generalized Least Squares Regression-Ar(1) Correlation-Parks-Kmenta Estimator-Dinamic Model

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively. \*\*\*\*D is represent the dummy variable.



Table 7 and 8 were examined; all of the models is significant as a model showing all the Wald statistic, at least 5% significance level is understood where it makes sense. In all models, it belongs to the variable income elasticity coefficient is less than 1. This finding, in Turkey during the period of 2005-2014 according to public spending comes with functional expenditure classification variables are not valid between the Wagner's Law.

**Tablo 9: Westerlund Error Correction Model Panel Co-integration Test Results**

Models	g <sub>a</sub> Group Mean, Z Value
Model 1	0.183
Model 2	0.520
Model 3	-0.854
Model 4	2.646
Model 5	3.358
Model 6	1.661
Model 7	4.597
Model 8	2.387
Model 9	4.841
Model 10	3.190

**Note:** \*, \*\*, and \*\*\* symbols represent 10%, 5%, and 1%, respectively.

Table 9 were examined, it is seen that all of the model is not statistically significant. In this case the relationship between co-integration variables. Panel co-integration test results has been found in the Wagner's Law is not valid.

#### 4. Conclusion

In this study, functional public expenditures and gross domestic product variables of 26 sub-regions were used in Turkstat Level-2 classification. Among the variables mentioned in the study, the validity of the Wagner's Law was tested. For this purpose, the model specification proposed by Peacock and Wiseman was used.

Due to the observation losses in the TR81 region, the region was excluded from the scope of analysis. Therefore, the analysis was carried out on 25 sub-regions. In order to determine the cross-sectional dependency test, unit root test, determine of the unit and time effects test and finally assumption of the regression model test were carried out. Thus, the optimal panel regression method was determined to determine the relationship between variables.

Functional classification of public expenditure and income variables within the scope of the analysis where ten different models. According to the findings of the of these models; comes on all models flexibility of the income variable coefficients are less than the 1. Whole models were findend significant on the at least %5 statistically level. This finding shows that the analysis findings remain within statistical confidence intervals and proves the reliability of the determination that the Wagner's Law does not validity on a regional scale.

According to the theory of the Wagner's Law; income and public spending must be a causality relationship between. Therefore the panel regression analysis findings of non-

stationary panel to support data sets can be used for error correction Model Panel co-integration test Westerlund. In this way, among the variables in the long run whether peer-integrated relationship. Co-integration test findings did not act together in the long run of variables and therefore the relationship between co-integration. Westerlund error correction Model according to the findings of the Panel co-integration Test; over a given period, with income between Wagner's Law of public spending is not validity.

Most of the findings are obtained this study are statistically valid at the %5 level of the significance and provides little evidence in terms of the direction of the relationships between the variables. To be obtained a wider and more valid evidence; for different analysis techniques and data size for a longer time set must be made of the use of panel data research.

**Key Words:** Regional Public Expenditure, Wagner's Law, Economic Growth

**JEL Code:** H50, H72, C33

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# **An Evaluation of Share of Turkish Central Government Expenditures within GDP between 1924 and 2017 in the Background of the Concept “Minimal State”**

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## **1. Introduction**

Liberalism sets the object of minimal state in its historical trajectory of evolution since its emergence. In the contemporary times, neoliberalism has also vigorously maintained the minimal state objective and retrenched the state on the basis of new global realities since the mid-1970. Neoliberalism emerging on a background of coalition with conservatism against the Keynesian welfare state implementations comes to redefine the state on the basis of economically defined criteria including effectiveness and efficiency. In order to be able to put into practice the ideal of minimal state the neoliberal project has effectively used the tool of public expenditures, with endeavors attempting to keep the mentioned expenditures on its minimum scale. This work attempts to shed light on whether basic institutions of public sector keep up with the minimal state objective, henceforth, the effort strives to measure and evaluate whether this tendency has been in effect for public expenditures government budget expenditures.

## **2. Minimal State as the objective of Neoliberalism**

This section will devote itself to a discussion of the terms neoliberalism and minimal state. In line with the aforementioned objective, it is extremely significant why minimal state as a term matters for the project of neoliberalism. In such regard, the paper starts with a succinct kickoff discussion on neoliberalism to be coupled with a neat analysis of the term minimal state.

### **2.1. Understanding Neoliberalism**

Neoliberalism emerges as the economic project of the New Right Movement that has been a decisive movement of thought of the restructuring of the Western World with its kickoff triggered by the mid-1970s petrol crisis. By early 1980s, neoliberalism championed with the remaking of the state and related public mechanism along with the requisites of the markets. In the words of Simon et al (2016:2) neo liberalism is defined as such at a more

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euphemistic level: “we are generally referring to the new political, economic and social arrangements within society that emphasize market relations, re-tasking the role of the state, and individual responsibility. Most scholars tend to agree that neoliberalism is broadly defined as the extension of competitive markets into all areas of life, including the economy, politics and society.”

In such regard privatization, austerity, deregulation, and free trade came to be the tools of neoliberal projects that began to be implemented in many sections of the world on a global scale in line with an all over embracing tide of economic liberalization. Indeed, neoliberalism also foresaw in reductions of public expenditures while assuming a dominant role for the private sector with the ultimate aim of leaving many public provision of goods and services to their private counterparts. Besides, neoliberalism was also an important economic project to challenge the Keynesian welfare state against which it coalesced with neo-conservative elements. While the project is located within the scheme of neoclassical economics, at an ideological level, the term has come to be more and more equated with the notion of minimal state referring to a position that government leaves many fields of public provision of goods and services thereby being limited to very fundamental services of a minimal state.

## **2.2. Minimal State**

The minimal state also known as a night's watchman state can be understood propositions of the neoliberal project that became the model state understanding by the mid-1980s. At a theoretical level, the minimal state is a government which limits itself with the police, military and court services. Indeed, it is a call for recessing back to the preservation of the ideals of classical liberalism with emphasis on basic inalienable rights of individuals.

## **3. Trajectory of the Expenditures of General Budget Institutions within the GDP: The Case of Modern Turkey**

The present work evaluates the trajectory of development of public expenditures' share within the GDP between 1924 and 2015 in Turkey. According to a theoretical definition, “public expenditures refer to those budgetary allocations granted to the institutions and organizations of general and annexed budgets on a narrow basis, while broadly speaking, it may come to point at the state's expenditures realized by public legal personalities in regard to welfare, public entrepreneurship, local administrations, funds organized outside the budget and other related fields” (Muter et al., 2012:45). Departing from this very definition, the analysis will be carried in different time periodization: First and foremost 1924-1929 Era which, having kicked off with Izmir Economics Congress, was determined by governmental budgetary expenditures aiming to privatize and encourage the foreign direct investment; secondly 1930-1938 Era: post-1929 statist oriented economic planning oriented years in the aftermath of the Great Depression, thirdly; 1939-1945 Era a time of WWII period, fourthly 1949-1960 Era an period of passage to and multi-party politics, fifthly 1961-1980 an era of planned economy and industrialization in following the 1960 Coup d'état; 1980-2001: a sixth phase of launch of neoliberalism; finally 2001-2015 an ultimate stage whereby the role of the state came to be transformed into a regulatory and supervising body with the data available for the relevant time periods.

### **3.1. Share of Public Expenditures of General Budget Institutions within GDP between 1924 and 1929**

Along with the resolutions of İzmir Economic Congress, plans for the formation of sui-generis market economic structure were put forth along with the need of government to intervene into economics due to prevailing circumstances of the time (Hafızoğulları, 2000: 302). When analyzed, the lowest share of the problematized expenditures share within the GDP was to realize around 10.22%. The very finding may be attached to the impact of the Great Depression. Along with the same line of development, a low rate of 10.38% realized in the year of 1926 may be explained in terms of the increase of 8.13 % increase in GDP despite the down turn of budgetary figures by a % of 14.79 (due to the omission of the class of expenditures known as “Muhassasatı Zatiye”). The highest rate of share as a percent appears of 13.44 %in 1927which may be understood in the light of the development that expenditures of general budget expenditures grew by 15.47% despite the plunging of GDP by 10.83%.

### **3.2. Share of Public Expenditures of General Budget Institutions within GDP between 1930 and 1939**

Two determinant factors have assumed to identify the economic policies implemented in the period between 1930 and 1939. These factors are protectionism and etatism. In terms of implementation of related policies, these years may be considered to be preliminary years of industrialization (Boratav, 2007:321). The lowest share of expenditures appeared at 13,21%, gradually reaching to 19,75 % in the year of 1935. While the increase in GDP was realized at its lowest rate with a 7,79% in 1935, the increase in general budget allocations of institutions with a 13,4% has been a decisive factor in understanding g the rationale behind the former. The lowest share visible in the year of 1930 may be explicable due to the perpetual impact of the Great Depression.

### **3.3. Share of Public Expenditures of General Budget Institutions within GDP between 1939 and 1945**

In an era of World War II whose impact became more than apparent, the lowest share was realized around 11.05% in 1945 whilst the highest rate of share remained around 19.55% in 1941. A great deal down turn is more than visible for the GDP and other budgetary figures for 1945. The high rate of realization in 1941 may be able to be explained with increase in expenditures of the Ministry of National Defense accompanied with a low rate of GDP.

### **3.4. Share of Public Expenditures of General Budget Institutions within GDP between 1946 and 1960**

In the aftermath of the introduction of multi-party politics, the highest rate of realization appeared around 20.8 %. The underlying reason behind this jump is due to 20.80 increase of general budget owing to increases of state debts by 200%. The lowest rate of share remained around 13.94% in 1951.

### **3.5. Share of Public Expenditures of General Budget Institutions within GDP between 1961 and 1980**

Following the 1960 coup d'état, the highest share of general budget institutions' shares within the GDP reached up to 23.33%, which can be explained owing to the low increase in GDP with a per cent of 6.07 and a swift increase in expenditures around 54.44%. Whilst a low rate emerges around 13.35 for the mentioned share in 1968 owing to the fact that exact opposite circumstances versus 1961 emerged in the problematized year. That is to say, increases in GDP elevated to 61.60 % while the public expenditures of general budget institutions took an increase of 5.09 %.

### **3.6. Share of Public Expenditures of General Budget Institutions within GDP between 1981 and 2000**

Yet another military takeover in 1980 introduced a new economic system in Turkey with the problematized share fluctuating around 16.58% in 1982 and 27.83 in 2000. While the same percent recessed back to 17.87% in 1985 without plunging under 20 % during the 1990s, which reached to its apex in the year of 2000. This may be able to be elucidated in the light of long-lasting impact of 1999 Financial Crisis onto the 2000s.

### **3.7. Share of Public Expenditures of General Budget Institutions within GDP between 2001 and 2015**

2000s brought about overwhelming changes to the Turkish state structure whereby government came to assume a more regulating and supervising role. In the aforementioned period, the highest rate appeared around 33.38% whilst expenditures of general expenditures recorded an increase of 72.87%. The lowest rate stayed around 22.14 %, due to the increase in expenditures by 3.20%. Another figure of significance is that an extreme point of plunging numbers in 2005 was followed by an increase of 25.19 % in 2015.

## **4. Conclusion**

The study has carried out an analysis which shares of public expenditures of general budget institutions within the GDP were analyzed in terms their trajectories', with a rate kicking off in 1942 with a rate of 10.24 % approaching up to 25.19 % in the year of 2015. The difference between the early years of the republic and the modern times may be explained in terms of differences between the changing economic circumstances and economic and financial crises that Turkey suffered from. Indeed, there exist a wide difference between the discourses of minimal state and the resulting phenomenon that the ideal minimal state was too far to be realized. Compared with the American counterpart and given the finding the finding the share of public expenditures remained around 19.5%, the Turkish case represents herself a terrain where minimal state ideal object was never able to be implemented.

**Key Words:** Minimal State, Liberalism, Neoliberalism, Public Expenditures

**JEL Codes:** H10, H50, H6

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# Estimation of Optimal Government Size based on Alternative Indicators in Turkey

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Ayşe Kaya<sup>2</sup>

## 1. Introduction

One of the most attractive topics in the field of public finance is the matter of the size of government in general, and the ideal size for government, in particular. Then, what are the reasons or reasons which make the topic attractive so much for researchers? From the view point of each researcher, this question may have different reasons or answers. However, when the relevant literature is investigated extensively, it can be seen that in addition to econometric studies, two reasons or answers forefront: i) government size has economically an important place, ii) government size is a political issue. All these issues we have listed are among the possible reasons why the government size still remains on the academic agenda. The purpose of this study is to make suggestions on the relationship between government size and economic growth by considering various indicators which are used in measuring government size and making use of non-linear econometric techniques and thereby to offer policy suggestions for Turkey.

## 2. Theoretical Framework: What Should be the Size of Government and How to Measure it?

In general, an economy consists of two sectors: the public sector and the private sector. From an efficiency perspective, which sector of the economy should be a share of the economy is the most debated on the economic and political ground, whereas the consensus is that there is no compromise.

Especially in the theoretical background of the public choice theory developed by James Buchanan [1919-2013] and Gordon Tullock [1922-2014], the international organizations such as the International Monetary Fund and World Bank also supported and led the implementation of the Neo-liberal movement in Keynesian theses to reduce the role of the public sector in many countries afterwards; In contrast, the economic reforms aimed at increasing the role of the private sector have followed each other. At the beginning of these applications, privatization applications took place. The practice of privatization in many countries, led by developed countries, pioneering and even transitional countries, took its place at the forefront of economic reforms. Naturally, all these developments have been instrumental in the importance of academic work in this field. Who is superior in terms of economic activity? Is the public sector to the private sector, or the private sector to the public sector? This debate, which does not even end today, has flared up in many countries

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with other objectives beginning in the early 1980s, as well as privatization practices [at least discursively] aimed at diminishing the state and increasing its effectiveness in the public sector. This study aims to analyze the complementarity and exclusionary effects of the two mentioned sectors with public sector indicators calculated as thresholds.

### 3. Comprehensive Literature Review

An earlier but influential work on the optimal size of the public sector belongs to Barro (1990). In his work covering 98 countries and the 1960-1985 period, Barro considered the share of government consumption expenditure as a measure of government size and came to the conclusion that government consumption expenditures negatively affect economic growth. The work of Barro (1991) is based on Barro's model of a series of studies [for example, Kormendi and Meguire (1985), Karras (1997)] that almost constituted the milestone for government size.

Kormendi and Meguire (1985) considered defense and education expenditures as the size of government in their work for 47 countries for the period 1950-1977 and examined the effects of these expenditures on growth, which they considered expenditure on public consumption. The findings of the authors show that defense expenditures and education expenditures negatively affect economic growth. Saunders (1985) investigated the effects of growth in total public expenditure / GDP ratio on growth for 21 countries and found that this effect is negative. Barth and Brady (1987), such as Kormendi and Meguire (1985) and Saunders (1985), have reached the conclusion that public consumption expenditures negatively affect the growth of public expenditure for 16 OECD countries for the period 1971-1983. Hansson and Henrekson (1994) analyzed the effects of total public expenditures, consumption and transfer expenditures on economic growth for 14 OECD countries between 1970 and 1987 and found that these expenditures had a negative effect on growth and that public investment expenditures had no effect on productivity growth has no effect.

Contrary to the empirical results of the above studies, Ram (1986) found that the size of government had a statistically significant and positive effect on economic growth in the study of 115 developed, underdeveloped and developing countries.

In their study of the US for the period 1929-1996, Islam and Nazemzadeh (2001) found no relationship between government size and economic growth. Yamamura (2011) examined the effects of government size on growth in 57 countries for the period 1965-1980 and reached the conclusion that the size of government affects the accumulation of capital and thus economic growth negatively. According to the findings, outward openness and size of government do not affect growth in developed OECD countries.

As can be seen, there is no consensus among the results of empirical studies of government size. There are different results for the model used, the time period covered, the variables and more important countries [developed, developing, etc.].

#### 4. Model and Empirical Findings

Theoretical modelling of the nexus between government size and economic growth is based on Ram (1986). The author in the mentioned paper, developed a model which establish a link between government size and economic growth by making adaption from the Feder's 1983 paper. In the Ram's model, it is assumed that the economy is formed from two sectors as public sector (G) and private sector (C). Additionally, in the both sectors output level of the economy (Q) relies on the inputs of labour (L) and capital (K). If output in each sector depends on the inputs of labor (L) and capital (K), and if, in addition, output size of the government sector exercises an "externality" effect on output in the other sector (C), production functions for the two sectors may be written.

This paper in a two sectors-economy (public plus private) proposes to employ the Treshold regression model proposed by Hansen (1996, 2000). Through making use this model, the paper aims to test the validity of the Armey Curve for Turkey under the consideration of various government size proxies. Different from many previous studies on the nexus between government size and economic growth, the present paper takes into consideration whole potential proxies used in measuring government size. On the other hand, unlike the most similar studies that employ linear models, this paper intents to employ non-linear model in examining the casual link between government size and economic growth.

#### 5. Conclusion

The theoretical model of the relationship between government size and economic growth is based on the work of Ram (1986). Ram has developed a new model to illustrate the relationship between government size and economic growth by adapting Feder's (1983) study in his work. In Ram's model, it is assumed that the economy is composed of two sectors, the public sector (G) and the private sector (C), and in both sectors, the level of production of the economy is assumed to depend on the input of labor and capital. According to this, in both sectors output level (Q) is based on two basic inputs such as labor (L) and capital (K), and additionally we can say that government size of public sector - externality effect", it is stated that the production functions of the two sectors can be created in this case.

In this study, two sectors (public and private) economy Hansen (1996, 2000) model using the threshold regression developed by the Armey curve for Turkey through the use of different government size indicator aims to investigate whether it is valid. The difference of the study from other studies is that public expenditures to be considered as public sector indicators will be examined on a component basis rather than cumulatively. Tax income, on the other hand, is subject to a similar decomposition and is included in the analysis of economic activity in the form of indirect and direct taxes. On the other hand, while the related literature mostly deals with the subject analysis linearly, this study utilizes nonlinear econometric analysis methods.

**Key Words:** Government Size, Armey Curve, Threshold Analysis

**JEL Codes:** E60, E62, H00, H50

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# Effect of World Trade Organization Agreements on Public Finance

Ufuk Selen<sup>1</sup>

## 1. Introduction

The global economy integration of national economies can be achieved through foreign trade policies, which are shaped on the basis of free market economy. While foreign trade policies integrate the national economy as a real economy in the global economy, it also influences the approach of other policy areas to free market economy conditions. This interaction is also observed in the field of public finance. The (WTO) agreements and mechanisms, which are the main actors in the establishment of the free trade system, have an influence that limits the powers of taxation and expenditure of nation states. From this point of view, in this study, it is aimed to evaluate the reflection of the free trade system on public finance understanding.

In today's world trade system, the state, especially for conservation purposes, taxation and expenditure initiatives are significantly limited.

The WTO's limitation of the state's taxation and expenditure authority arises at the following points: Member States in relation to the use of taxation authority; reduce customs tax rates, fall under tariff commitments and have to comply with the defined procedures for the determination of certain tax subjects and bases. Regulation under public procurement agreement Government spending authority has been suppressed from procedural, qualitative and quantitative aspects.

## 2. Structure of the Free Trade System and Need for the Nation State

Judicial and institutional structures that are settled in economic, social and cultural fields today are spreading across the borders of countries and emerging universally accepted norms depending on areas of interest. It is expected that the neoliberal basis will contribute to expanding the fields of activity of actors who play a role in the market and hence the world economy, and to minimize the inconceivable conflicts. It is expected that the standardized rules on a neoliberal basis will contribute to expanding

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the fields of activity of actors who play a role in the market and hence the world economy, and to minimize the incompatibility. Staying within certain boundaries in economic relations will be restrictive in terms of activity, impact and profit for state or non-state units seeking a larger market. This belief points that increasing individual freedoms in every field and a multidimensional transformation towards the removal of all borders in front of the circulation of goods and services.

Based on individual freedom of enterprise, capitalism perceives the whole world as a single market, as it is by its nature. In order for capitalism to dominate world markets, legitimacy, security and continuous growth needs must be met. Alliances between countries and increasing international collaborations respond to these needs. Military alliances meet the need for capitalism, while the international division of labor responds to the need for continuous growth of capitalism. The international division of labor, on the other hand, meets the need for continuous growth of capitalism.

This need is met with the help of nation states. The nation state plays an important role in the realization and legitimization of forms of capitalist action in a safe environment. The nation state fulfills this role with autonomy. States use autonomy in their social, economic and cultural spheres.

In fact, all of these are necessary elements for the development of the free trade system. In today's free trade model, it is desired to use the national autonomy as a minimal measure. It is demanded that the vacancy of authority formed by the narrowing of the use area of the national autonomy be left to the international autonomy.

Autonomy at the international level refers to the sovereignty power that states use in international relations. As expressed by the "Realistic State" approach, which is trying to explain international relations, autonomy at international level can develop in a confrontational and competitive environment and exhibits a dynamic structure.

In today's conditions, the free trade system is dominated by the dominant states in the system in a confrontational and competitive environment. The need for a global authority is still maintained in order to minimize the risks associated with conflictual relations on the system. The dominant nation states establishing intra-system balances can not directly use the international authority.

For this reason, in today's the free trade system is being tried to be managed by international organizations. International organizations such as the UN, WB, IMF, and WTO, which have been established especially after World War II, have played an important role in determining and enforcing the rules of the free trade system. These organizations work to ensure that the standards they have developed for the issues that fall within their field of activity are accepted worldwide. These organizations carry out their work with the motive of the conflict norm in international law. Conflict norms give these institutions a transnational qualification.

The state is accelerating the integration of states into the world economy by liberalizing economic policies, reducing public pressure on the economy, developing and adapting individualistic philosophical trade policies and using appropriate

instruments. In this process, the foreign trade policies and tools used by the state have differentiated in terms of combination and effectiveness. The change in the composition of foreign trade policies is related to the understanding of public finance, which is based on the acceptance of a neutral state. Foreign trade policies, inspired by the idea of state neutrality, are also being designed and implemented so as to be least influenced by the state's interventions.

It began with the "*General Agreement on Tariffs and Trade*" (GATT) to reduce public regulation on foreign trade and is now being carried out in a supra-national institutional structure with the WTO. With this nature, the WTO regulations constitute the "constitution" of commercial activities carried out in a wide range of fields, from trade of goods and services to intellectual property rights.

### **3. The Impact of Free Trade System on Public Finance**

The WTO, in general, derives its power to influence national economic policies, in particular the public finance, from the establishment agreement, which is accepted by all members. The agreement emphasizes that the WTO was established as a common institutional structure with the aim of bringing about the functioning of the agreement and the mechanism. At the same time, it is concluded that all additional agreements are binding for member states. The binding provisions of the establishing agreement limit the policy setting and implementation initiatives of member countries.

The impact of the WTO on the use of the state's public finance instruments is at these points. The first observed effect was the use of state taxation authority. In this context, member states are compulsory to reduce tariff rates, to enter tariff commitments, and to comply with defined procedures in the determination of certain tax issues and tax bases. The effect of public expenditure authority is to suppress expenditure in terms of procedure, combination and quantity. These effects are due to the obligations of the "Public Procurement Agreement" and the "Subsidies and Countervailing Measures Agreement".

The impact of the WTO on the individual politics of the member states arises not through the Organic structure of the WTO but through the enforcement of sanctions provisions in the Agreements. Member countries play a direct role in the implementation of sanctions. If the decisions taken in the "Dispute Resolution Mechanism" organized as a sanction vehicle are not complied with, the complainant is allowed to enforce sanctions. The sanction to be imposed by the complainant country and how it will be enforced is defined in the agreement governing the "Dispute Resolution Mechanism".

### **4. Conclusion**

All this shows that WTO regimes serve to reduce the state in both regulatory and functional sense. The free trade system, shaped by the hegemonic powers with a neoliberal point of view, is questioned in the process of redefining international distributional relations. The attitude of the US that does not recognize the WTO rules

gives priority to the question "Is the point of freedom being the point that the interests of the hegemon powers are damaged?"

**Key Words:** World Trade Organization, Dispute Resolution Mechanism, Taxation Authority, International Trade

**JEL Cod:** F13, F10, P45,H2

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## 2000 After Inflation Effects of Domestic Debt Management Policy in Turkey

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Hatice Merve Aksoy<sup>2</sup>

### 1. Introduction

The high level of public expenditures, the problems that come after the inadequacy of the public incomes, and the government borrowing and debt management policies are on the agenda. Public deficits that can not be financed by ordinary income sources The Central Bank is trying to finance its resources through internal borrowing or external borrowing.

Debt management policies have a significant impact on macroeconomic balances in terms of their causes and consequences. As a matter of fact, a high level of public sector borrowing has serious effects on important variables such as interest, inflation and GNP. The role and importance of domestic borrowing in public financing is further heightened by reasons such as the inflationary effect of Central Bank resources and the difficulty of repayment of external debt.

All of these situations require an internal debt management strategy and policy that can be successfully planned, take risks into account, minimize costs, and be based on accountability and transparency. Savings deficiencies, budget deficits, unsustainable debt swings, affect many economic indicators, and inflation figures can also be high and chronic. In this context, supporting the macroeconomic balances within the framework of a proper and effective debt management policy strategy, taking care of the simultaneous balances of fiscal and monetary policies, and making policy choices in line with the Central Bank's price stability target together with debt management in this context is of great importance in the context of debt management-inflation relations.

In this first part of the study, the concept of public debt management will be discussed and the basic principles and elements to be observed in debt management will be examined. with reference to the second part of the public debt management objectives with the concept of debt management and legal and institutional developments related to debt management in Turkey will be discussed. In the third section, the definition of domestic inflation, its causes and types will be mentioned and then internal debt management and inflation relations will be discussed.

In the fourth chapter, the share of daily net domestic debt stocks, debt-denominated GDP in years 2000, the percentage changes in the daily inflation rates from 2000 and the domestic debt rollover ratios will be examined. Within these figures, the Central

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Bank Independence of 2001 and the regulation of the debt management regulations no. 4749 will be sought to respond to the effects on the debt management policies and the price stability policies.

Working under the scope of the focal point of the final chapter in the relationship between inflation and domestic debt management policies will be put in effect the impact on inflation of the internal debt management policy implemented after 2000 in Turkey.

## **1. Public Debt Management Concept and Compositions of Debt Management**

### **1.1. Public Debt Management Concept**

Debt management can be defined in a narrow and classic sense as "paying when debts arrive" (Yıldız, 2014: 69).

### **1.2. Elements of Debt Management**

Elements of debt management can be classified by taking into account various aspects. Borrowing sources (domestic debt sources-external debt resources), debtors, debt maturity and interest structure, instruments used in borrowed markets, and types of debt management implementation (ordinary-extraordinary) can be listed as various debt management elements.

## **2. Public Internal Debt Management and Related Legal and Corporate Debt Management Developments in Turkey**

### **2.1. Public Domestic Debt Management**

It is possible to respond with three different answers to the question of how to finance public deficits. In the event that the public expenditures can not be covered by the ordinary income of the state, the state will either prefer the way of printing money by resorting to the sources of the Central Bank or will go to the borrowing path in order to get away from this inflationary effect.

### **2.2. Related Debt Management Legal and Institutional Developments in Turkey**

There is an open legal ground, transparency and accountability in the efficient, effective and accurate debt management policy, and three important factors that take risks into account.

## **3. Relationship between the Definition of Inflation, Causes, Categories and Domestic Debt Management**

### **3.1. Definition, Causes and Types of Inflation**

Prices are expressed as a sustained increase in the general level of inflation, since the year 1970 in Turkey have begun to emerge as the loud and chronic (Selim, Ayvaz Güven, 2014: 128).

### 3.2. Inflation and Domestic Debt Management Relationship

Many emerging economies are faced with chronic inflation figures. The efforts to escape from inflation or to attract them to a reasonable level in terms of consequences and consequences are related to the economic policies that are being held and the degree to which these policies are applied.

## 4. Post-2000 Development of Domestic Debt Domestic Debt Management in Turkey and the Effects of Inflation

Looking at the recent development in Turkey's domestic borrowing, borrowing was carried out during the first Republic in 1933 and has played an important role in the initial stages of economic development. During the Second World War, it was borrowed to cover national defense spending, and in the following years domestic borrowing was mostly done for the financing of budget deficits and financing of investments (Seymen Oskay, 2004: 125).

The financing of public deficits through domestic borrowing is faced with an increasing interest cost. This increase in interest rates leads to short-term capital inflows and speculative capital inflows. In the slightest uncertainty in the economy, withdrawal of these short-term speculative purposes can crush the economy by overturning the economic balances (Yavuz, 2011: 105-106).

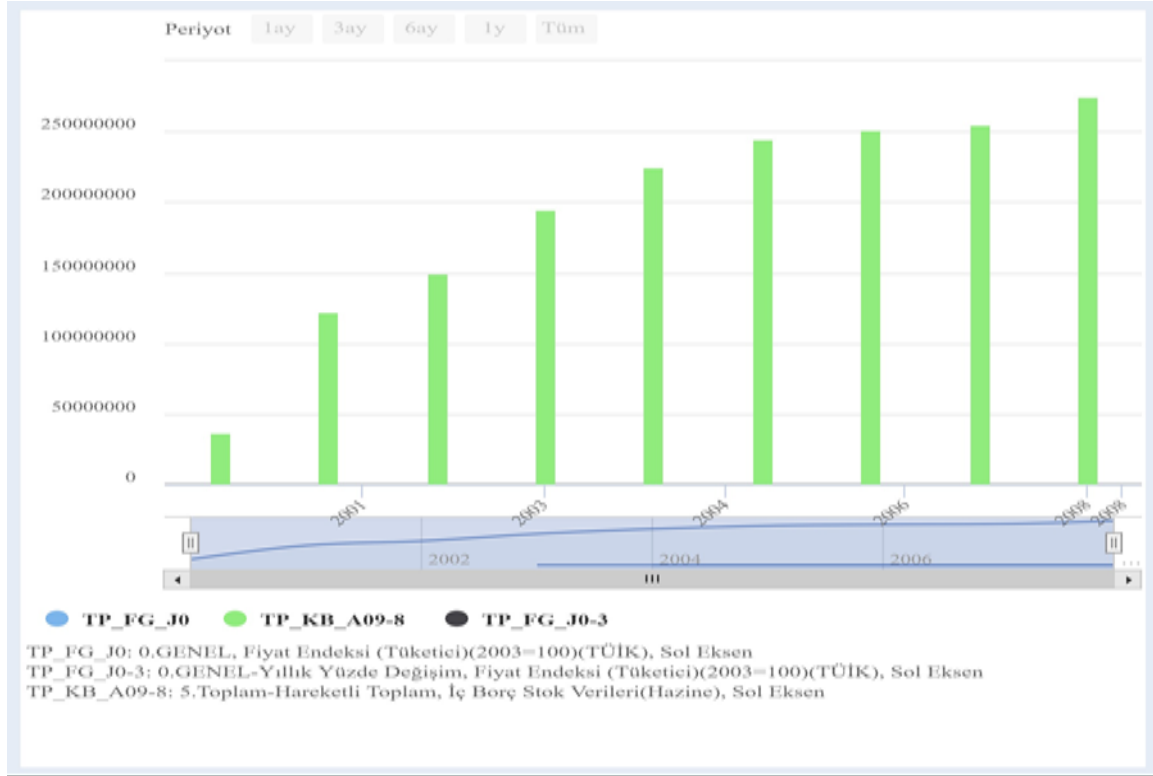
**Table 4.1. Public Internal Debt Statistics During 2001-2008 Period**

Years	Public Gross Domestic Debt (Billion TL)	Public Gross Domestic Debt Stoku (GDP%)	Domestic Debt Service (Billion TL)	Principal	Interest	Domestic Borrowing	Total Domestic Debt Turnover Rate%
2001	125.6	51.2	-	-	-	-	-
2002	155.2	43.2	-	-	-	-	-
2003	202.1	43.2	130.3	85.2	45.0	119.7	91.9
2004	235.1	40.7	167.9	119.8	48.1	148.4	88.4
2005	259.8	38.6	167.4	128.2	39.2	149.6	89.4
2006	268.3	34.0	145.4	107.2	38.2	111.0	76.3
2007	273.3	31.0	136.8	96.4	40.4	108.8	79.5
2008	295.8	29.7	129.6	86.0	43.6	96.3	74.3

Source: Created by authors using data from the Undersecretariat of Treasury.

In a financing model where domestic borrowing is dominant, domestic debt stock increases if the primary budget surplus (Sönmez, 1998: 362), if real interest rates increase rapidly, causes monetarization of borrowing and causes inflationary pressures and keeps real interest rates above the growth rate. All of these situations require an internal debt management policy that is based on a specific set of legal frameworks in which risk factors are taken into consideration, in which the costs of domestic debt are minimized.

Graph 4.1. 2000-2008 Consumer Price Index (Consumer) (2003 = 100) (Annual)



Source: Created by the authors using the Electronic Data Dissemination System of Central Bank of the Republic of Turkey.

## 5. Result

Ever-growing macroeconomic structures, rising public spending, global crises and growing debt tightening, as well as domestic debt management policies, are gaining in importance every day.

In a financing model where domestic borrowing is dominant, high real interest rates, an increase in the domestic debt stock and inflationary pressures are inevitable. Increasing interest in debt stock is debt-borrowed, using the resources of the Central Bank makes domestic borrowing an ordinary method of financing and brings inflationary effects inevitable. Therefore, borrowing should be a financing instrument used in the most necessary and necessary periods as the last financing method.

**Keywords:** Debt Management, Domestic Debt Management, Inflation.

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# **The Impact of Globalization on Public Expenditures: An Analysis on Former Soviet Union Countries**

**Hakan Hotunluoğlu<sup>1</sup>    Sercan Yavan<sup>2</sup>**

## **1. Introduction**

Today, the term globalization is considered an undeniable reality that surrounds the entire world. Thanks to increased technology, communication and transport economies grew rapidly, accelerated, and connections became more and more stronger and continues to strengthen. It is also clear that this change has created economic, financial and social effects on states. This situation reveals how states are affected in particular in terms of financially. The studies made in this context are revealed as a phenomenon discussed in the literature that whether the expenditures of the states, in other words public spending are influenced by the increasing or decreasing trend of global expenditures. The impact of globalization is expressed as Compensation and Efficiency hypotheses. The adverse effects of increased globalization have led governments to implement protectionist policies. For this reason, while the increase in public expenditures is expressed as the compensatory hypothesis, the reduction of public expenditure by changes in cost and efficiency is called efficiency hypothesis. In this study, the transformation experienced by 15 countries separated from the Soviet Union and the impact of globalization on the impact of public spending are examined. In the second part of the study, the impact of globalization on public expenditure will be discussed theoretically. In the third part, the effect of the globalization of public expenditures will be estimated using the 19-year data collected between 1996 and 2014 of the 15 countries separated from the Soviet Union.

## **2. The Impact of Globalization on Public Expenditure**

It is important to emphasis on the national borders with this approach. This is because the integration of world economies or going towards being the only market is at the center of the debate about globalization. Naturally, the concept of a national border is not only limited to the economic dimension, but also means that it has its ideological, political, administrative and cultural aspects. This study was conducted to determine how the public expenditure against international integration is reacting to this

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situation after the dissolution of the Soviet Union. In this analysis, the political dimension of globalization is involved in the selection of countries, while the interpretation of the expected results constitutes the economic dimension of globalization.

The fundamental characteristic of the economic dimension of globalization is the globalization of goods, services and labor markets. Globalization has begun to become widespread with the development of international firms and has caused intense competition among these firms. Export-based strategies have interacted with companies and governments, and regional economic internalization has evolved into another form of globalization. Most thinkers share the opinion that economic globalization is an inevitable and irrevocable tendency in relation to globalization (Görmez, 2005: 7–10). This inevitable change has also had an impact on the economic, social and political actions of the state. Our study focuses on the economic impact of globalization on the state.

In fact, depending on the commercial liberalization, there has been certain acceleration in economic globalization after World War II. The main acceleration occurred after the crisis in the mid-1970s. Along with the economic crisis that took place in the 1970s, the impact of globalization has increased and has led to a new order. Indeed, the economic downturn experienced in this period and decline in the profitability of the capital required the abandonment of the national policies led by the Keynesian policies in force, and necessitated transition to openness policies around the world. In this regard, the commercial openness led by neoliberal policies from the end of the 1970s and the liberalization policies in the economy began to adopt worldwide. Subsequently, the collapse of socialist systems in the 1990s led to the spread of economic liberalization throughout the world and formed an environment in the direction of going back from the social state. This process, called revival of liberal politics, has been a major issue in world economies in terms of strengthening the free market system and reducing the social and economic efficiency of the state (Gümüş, 2010: 427).

The globalization process has led to an increase in the interdependence of fiscal policies that may affect government spending. Thus, while globalization has increased the resources allocated for productive expenditure, which will increase the competitiveness of countries, it has led to a reduction in the sources allocated for non-productive spending. On the other hand, expenditures for social welfare has reduced external risk exposure, therefore, social welfare spending by citizens has become more demanded (Sanz & Velázquez: 2004). Although the traditional legitimacy of the private sector market mechanism in developed capitalist countries is generally accepted, governments in these countries are more influential in the role of social service and income providers, goods producers, economy and capital managers (Cameron, 1978: 1). Hence, as a consequence of globalization, especially in the developed countries, the economic intervention of the state has tended to increase.

According to some scientists, globalization is defined as an economic policy activism that promotes the competitiveness of governments and keeps them under heavy "efficiency" pressure to keep mobile capital within national borders. In contrast, some

scientists have pointed out that globalization has increased material inequality and economic insecurity, and that the government has increased the state's economic activities to compensate for the situation (Garrett, 2001: 3). In the literature, public expenditures, in other words, the existence of the government in the market, are explained in the context of two hypotheses. These are referred to as event hypothesis and compensatory hypothesis, as mentioned above.

### 2.1. Compensation Hypothesis

According to the compensatory hypothesis, the public sector protects individuals against external risks. States are faced with shocks experienced in international markets as long as they are involved in economic integration around the world. These outward open economies are responsible for protecting public spending against these shocks, assuming that the public sector is safe. The effects of these external shocks are reduced by the public sector (Rodrik, 1998).

The compensatory hypothesis has also individual risk aspects. Trade liberalization within the context of international integration will also cause economic structural changes by increasing external dependency (Martin & Steiner, 2013: 1). Increasing external dependence can also lead to insecurity at the individual level.

### 2.2. Efficiency Hypothesis

There are two reasons for explaining the global integration of the states over the years and the changes in public expenditures in the same years as the efficiency hypothesis. First, there is no evidence that the increase in capital mobility has any effect on government spending. In the second case, although trade levels and levels of government spending do not show a positive correlation, countries with a faster rate of trade in recent years have experienced a slower growth in public spending (Garrett, 2001: 27).

## 3. Model and Data Set

The impact of globalization on public expenditure (Dreher, 2006) (Dreher, Sturm, & Ursprung, 2008) has been modeled as a function of globalization index (SKE), economic growth (EB) and per capita foreign direct investment (DYY). The model is shown below as an Equation 1.

$$KH = \beta_0 + \beta_1 SKE_{it} + \beta_2 EB_{it} + \beta_3 DYY_{it} + \varepsilon_{it}$$

### 3.1. Cross Section Dependency Test

Lagrange Multiplier (LM) test is used when the time dimension of the panel is larger than the cross section size (Breusch & Pagan, 1980). The Breusch-Pagan LM test was used because our model had a time dimension of 19 and a horizontal cross-sectional dimension of 15.

*H0: No Horizontal Cross Section Dependency.*

*H1: Horizontal Cross Section Dependence.*

**Table 1: Horizontal Cross Section Dependency - Breusch-Pagan LM Test**

Variables	Test Statistic	Probability Value
<i>KH</i>	931.5215	0.0000
<i>SKE</i>	1736.707	0.0000
<i>EB</i>	407.6542	0.0000
<i>DYY</i>	274.2170	0.0000

The results of the Breusch-Pagan LM cross section dependency test are given in Table II. According to the test results, the H0 hypothesis expressing independence among the units is rejected. Therefore, there is dependency between the cross sections. This commitment can affect other countries in a situation that occurs in a country. Here, a situation that occurred in one country, can affect other countries.

### 3.2. Unit Root Test

The first thing to be considered in the panel data unit root tests is whether the cross-section relationship between units is exist. According to the Breusch-Pagan LM multiplier test result, since there is a relationship between cross sections first-generation unit root tests will not yield reliable results, so a unit root test, developed from second generation unit root tests by Pesaran and also known as the updated Cross Section Dickey Fuller (CADF), was applied (Westerlund, Hosseinkouchack, & Solberger, 2016).

**Table 2: CADF Unit Root Test Results**

	Variables	t-value	Z[t-bar]	P-value
Without Trend	<i>KH I(0)</i>	-2.264	-1.950	0.026**
	<i>SKE I(0)</i>	-2.599	-3.223	0.001***
	<i>EB I(0)</i>	-3.160	-5.355	0.000***
	<i>DYY I(0)</i>	-3.223	-5.593	0.000***
With Trend	<i>KH I(0)</i>	-2.886	-2.347	0.009***
	<i>SKE I(0)</i>	-2.712	-1.671	0.047**
	<i>EB I(0)</i>	-3.362	-4.189	0.000***
	<i>DYY I(0)</i>	-3.471	-4.614	0.000***

Note: For critical (N=15;T=19) values levels of Pesaran (2006) CADF test at the \*\*\*1, \*\*5% ve \*10% significance level respectively -3,06 -2,84 and -2,73

*H0: Unit root exist.*

*H1: Unit root missing.*

Since there is no second generation unit roots at the level of the series, cointegration test is not performed. The cointegration test assumes that the panel-forming series are stationary at the same level, that is, when the first difference is received. However, the series are stable at the unadjusted level.

### 3.3. Hausman Test

It will be decided whether the test model will be fixed or random (Hausman, 1978). The Hausman test will be applied in this.

**Table 3: Hausman Test**

Chi2(3)	Probability
4.80	0.1879

If a probability value is greater than 5% at the end of Hausman test it shows that the model to be used is a random effects model.

### 3.4. Autocorrelation Test

In panel data models, autocorrelation is mainly due to unit effect. If there is no unit effect in the model, the autocorrelation in the combined error will be reduced, but the autocorrelation in the error (error term) will not be affected. Therefore, the autocorrelation of the error term needs to be tested in the model.

*H<sub>0</sub>: No autocorrelation from the first order.*

*H<sub>1</sub>: Autocorrelation exist in the first order.*

**Table 4: Wooldridge Autocorrelation Test Results**

F Value	Probability
76.510	0.0000

According to the autocorrelation test statistic result proposed by Wooldridge (2010), the null hypothesis of "no autocorrelation" has been rejected in the model because the probability value is smaller than 0.05. In other words, there are autocorrelation problems among the error terms in the equations.

### 3.5. Heteroscedasticity Test

Whether there is a problem of varying variance or not in the model established in the study will be tested by the heteroscedasticity (variance) test developed by (Greene, 2003). In this test, the null hypothesis indicates that there is no variable variation, and the alternative hypothesis indicates that there is a varying variance.

$H_0$ : No varying variance. ( Panel Homoscedasticity)

$H_1$ : Varying variance exists.( Panel Heteroscedasticity)

**Table 5: Greene Heteroscedasticity Test Results**

<b>Likelihood Ratio LR Test</b>	98.54275
<b>Degrees of Freedom</b>	14.0
<b>P-Value &gt; Chi2(14)</b>	0.00000

Thus, since the null hypothesis based on homoscedasticity is smaller than the probability value of 5%, it is observed that the changing variance problem in the model is found.

### 3.6. Analysis Results

There are both changing variance and autocorrelation in the model. In order to get more consistent results from the model, the model was estimated by the cluster clustering method, which gives more accurate results in the case of these two problems (Driscoll & Kraay, 1998).

**Table 6: Panel Data Results of 15 Countries in the Data Base of the World Bank in the Period of 1996-2014 Model 1**

Dependent Variable: <i>KH</i>				
<b>Independent Variables</b>	<b>Coefficient</b>	<b>Robust Std. Err.</b>	<b>t-statistics</b>	<b>Probability Value</b>
<i>SKE</i>	-0.0048447	0.0008288	-5.85	0.000***
<i>EB</i>	-0.0038334	0.0009564	-4.01	0.000***
<i>DYY</i>	-0.0057158	0.0031437	-1.82	0.069*
<i>C</i>	0.5678132	0.0489883	11.59	0.000***
<i>R</i> <sup>2</sup>	0.1691			

**Table 7: Panel Data Results of 15 Countries in the Data Base of the World Bank in the Period of 1996-2014 Model 2**

Dependent Variable: <i>KH</i>				
Independent Variables	Coefficient	Robust Std. Err.	t-statistics	Probability Value
<i>SKE</i>	-0.0051933	0.0008773	-5.92	0.000***
<i>EB</i>	-0.0037997	0.0009619	-3.95	0.000***
<i>DYY</i>	-0.0068095	0.0031011	-2.20	0.028**
<i>EURO</i>	0.146081	0.031957	4.57	0.000***
<i>C</i>	0.5588724	0.0473252	11.81	0.000***
<i>R</i> <sup>2</sup>	0.3794			

Refers to the \*\*\*% 1, \*\* %5, \* %10 significance levels.

#### 4. Result

In this study, the changes in the public expenditures of the 15 countries that emerged after the disintegration of the Soviet Union are being investigated. Data used in the study is belongs to 1996-2014 years. Given the structure of the Soviet Union, it is known that pre-distribution public expenditure covers almost all of the economic activities taking place in the country. However, removal from this older structure and integration into the international structure of the former Soviet States, the question of how globalization affects these countries' public spending has created the motivation point of this work. After the fragmentation, the integration into the international structure did not only take place in the form of outward openness, but at the same time, some emerging states became members of the European Union economic community. At the same time, important results have been achieved in relation to this situation. In this context, social globalization index which represents public expenditures of 15 countries and globalization are used. According to the model formed and the results obtained, there is a significant and negative relationship between public expenditures and the social globalization index, which is a symbol of countries' involvement in international integration in the process of globalization. As governments are involved in international integration, there is a decline in public spending. There is a negative relationship between Gross National Product (GNP) and public expenditures. As national output increases, public expenditures decrease. As developments in developed countries increased, different results have been achieved regarding the increase in public expenditures. Since those 15 countries are evaluated within the underdeveloped or developing country concept, no positive impact should be expected between public expenditures and the national income increase envisaged in developed countries. There is a meaningful and negative relationship between public expenditures and net foreign direct investment, which are considered as economic indicators of globalization. This is in agreement with the results expected in the study. Finally, there is a meaningful and positive relationship between the public expenditure and dummy variable used as a measure of the involvement of some of the

states emerging after the dissolution of the Soviet Union in the economic community of the European Union. According to the result obtained, if the membership to the European Union is considered as a development indicator, the former Soviet Union member countries that have joined this community have a greater increase in public expenditure than the former Soviet Union countries that have not joined.

**Key Words:** Public Expenditure, Globalization, Soviet Union

**JEL Codes:** H30, H50, F50

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## Public Policies towards Systematic Problems of the National Innovation Process

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### 1. Introduction

Innovation policies designed with the aim of supporting the development of innovations today constitute an important part of economic growth policies. Innovation policies generally focus on the elimination of problems that negatively affect the innovative capacity of the economy. In parallel with this, economists analyze the problems arising in the operation of the innovation process within the framework of systematic analysis by using the National Innovation System approach. (Smith ve Kuhlmann 2004; Woulthis vd. 2005; Chaminad vd. 2012; Turner vd. 2016)

Edquist (2011) describes the problems of the functioning of the national innovation system within the framework of the basic activities taking place within the system. Balzat (2006), on the other hand, describes the system problems from the inadequacies of the functions of the national innovation system. Finally, Woolthuis (2005) and Chaminade et. al (2012) have identified problems arising in the functioning of the innovation process taking into account the four main structural components of the National Innovation System. Defining systematic problems in this way constitutes an important framework for policy implementations that will enable the functioning of the innovation system. In this framework policy objectives related to systematic problem areas can be determined as follows:

- (i) supporting the capacity development and participation of system actors,
- (ii) strengthening mutual interaction between system actors,
- (iii) enhancing the effectiveness of the institutional structure of the system,
- (iv) strengthening the physical infrastructure of the system,

The aim of our study is to identify problems and elaborate policies for resolving them, taking into account the four basic components of the national innovation system developed by Woolthuis (2005) VE Chaminade vd. (2012) as described above.

### 2. Policies on the Elimination of the System Actors' Inadequacy

The national innovation system consists of wide range of actors such as Research and Development Organizations, Firms, Regulatory and Supporting Organizations. These actors contribute to the efficient operation of the innovation process as a result of

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their activities. The greater the number of such organizations and the more efficient they operate, the stronger the capacity of the innovation system. Significant systematic problems arise if the number of these institutions, which are the main actors of the system, is insufficient or if they do not work effectively. Hence, implementations to support the formation or operation of actors within the national innovation system constitute an important part of the policy design process.

### **3. Policies to Strengthen Mutual Interaction of the System Actors**

The reciprocal relations between the actors are an important structural component of the basic dynamic of the national innovation system. Defining the system only within the framework of the actors or organizations it is in is leading to the modeling of the innovation process in a static fashion. However, the system approach assumes that actors can interact with each other in a mutually effective manner. Through this network of relationships, the system is expanding its "learning by interactivity" capability, increasing its innovation competence. For example, as relations between the Research Units and the Firms develop, the functions related to the production and implementation of innovations within the system can be better performed. Therefore, weak relationships between system actors indicate an important system problem. But too tight relationships between the units, especially based on the dominance created by one side, can create problems. In this respect, the regulation of weak and excessively tight relations between actors through various applications is an important issue to be considered in the policy design process.

### **4. Policies on the Inadequacy of the Institutional Superstructure of the System**

Institutional structure constitutes the whole set of rules governing the process of operation as a whole. Such rules may be brought by the state in legal regulations or may be determined within the framework of social customs and traditions over time. Thus, the institutional structure ensures that the innovation system develops in a certain discipline. Institutional order improves predictability by removing the uncertainty about system operation with the rules it brings. This contributes to the operation of the innovation process in an orderly manner and thus to its effectiveness. If the national innovation system is deprived of the necessary formal and non-formal institutional structure, significant system problems arise. For example, entrepreneurs do not make the necessary investments for innovative activities if intellectual property

rights are not secured by legal regulations or an effective patent system is not established. The way in which attitudes and traditions that shape the non-formal institutional structure prevent innovation is also an important system problem. All of these are issues that need to be addressed extensively in the policy design process.

## 5. Policies Regarding the Inadequacy of the Physical Substructure of the System

The final structural component to which system problems can be identified is related to the disruptions in the physical infrastructure of the system. The efficient functioning of the national innovation system requires a strong physical infrastructure ranging from advanced communications and transportation networks to rich energy resources and deep financial markets. System activities can only be performed in the best possible way with the facilities and functions provided by the system physical infrastructure. For example, if the national innovation system is spread over a very large area and does not have a rapidly functioning information network, mutual interaction of actors within the system can not be achieved in a healthy manner. Thus, a significant part of the policy-design process for improving the national innovation system should include practices aimed at strengthening the physical infrastructure of the system.

## 6. Conclusion

The design of innovation policies based on systematic problems, as required by the National Innovation System approach, has gained great importance nowadays. It is no longer possible to develop an isolated analysis of a single system component of the innovation process and design a policy accordingly. Instead, policy packages aimed at simultaneously supporting as many system components as possible should be preferred. This has led to a deepening of policy as well as an increase in the number of policies to be implemented. Thus, within the framework of innovation policies, the area of intervention of the state is widening and also complicating at the same time. Furthermore the effective designs of a large number of politics, as well as the coordination among them, are of particular importance.

**Key Words:** National Innovation System, Systematic Problem, Innovation Policy.

**JEL Kodu:** O30, O33, O43

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# Taxation of Tegnology Giants in Wiew of Global Tax Problems

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## 1. Introduction

The changes that take place in the international arena also affect the structures of the countries. Widespread adoption of liberal policies in the period after 1970, marked the beginning of profound changes in many countries. Technological advances have brought new developments to information and communication. the development of information and communication technologies has led to the convergence of countries with each other. Trade conducted between the countries, with the development of information and communication technology has become easier. In addition to this situation, the concept of border has begun to change with the influence of globalization movements. Production factors in the international arena has become active. As a result of the circulation of the factors of production among the countries, the attraction of the capital factor to the country has become an important element to realize economic growth. Countries entered into competition with each other to attract foreign capital to them. While the dimension of the competition initially expressed a positive situation, it began to go towards a negative situation with time. Competition in the field of taxation has given rise to tax reductions. Countries that have taken this further have started harmful tax competition. As a result of this situation, the concept of tax havens emerged.

## 2. Major Global Tax Problems

Liberal politics and globalization, which increased in the post-1970 period, also brought with it a number of tax problems. In 1972, the concept of tax competition was defined by Oates. Increasing tax competition in the international arena has created harmful tax competition. The main factor in the formation of harmful tax competition is the emergence of tax havens for capital transfers. Tax havens are called countries that have little or no tax, and do not share information. Tax havens are reducing the tax bases of businesses by presenting non-real transactions. The tax havens that multinational companies resort to for tax evasion have become a global tax problem.

The spread of foreign trade, the movements of globalization and the emphasis on liberal politics have led to multinational corporations operating in many countries. The fact that multinational corporations operate in many countries raises tax liabilities in

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the countries in which they operate. Instead of paying taxes, multinational corporations struggle to reduce tax burdens with transfer pricing, damaging tax authorities. In addition, technological developments allow trade to be realized in an electronic environment. Rapidly developing electronic commerce has brought new tax problems to tax authorities. Tax legislation has been required to be reorganized both in terms of domestic electronic commerce and foreign electronic trade. In addition to this situation, the complexity of the digital world makes it more difficult to taxation electronic commerce.

In addition, international double taxation among global tax problems has become a major problem. International double taxation is the problem that the same taxpayer is taxed by more than one country on the same taxation issue during the same taxation period. International double taxation has become a problem that must be resolved by reciprocal agreements. The international double taxation, which is being tried to reduce the effects of reciprocal agreements of countries, is still a major global tax problem. When all these global tax problems are assessed, the behavior of companies called tech giants harm to tax authorities.

### **3. Taxation Problems of Technology Giants**

Tax havens that are far from sharing information have turned into tools for companies to reduce their tax base by showing non-existent transactions. In addition to these developments, companies called technology giants have begun to cause tax losses in countries. Both European countries and other countries have started fighting against these attitudes of technology giants. Country-based taxation struggles have been inadequate. The automatic information exchange agreement, which has recently been developed as a solution to the problems experienced in the field of international taxation, has the potential to create a solution to the problem of the taxation of technology giants. The inclusion of technology giants in the automatic information exchange agreement will solve the problem. In addition to this, it may be possible to implement a standard for technology giants by a parent organization, such as an automatic information exchange agreement. The inadequacy of the struggle on the basis of the country necessitates the intervention of a higher institution for the problem of international taxation. From this point of view, there is a need for global fiscal discipline in relation to international taxation issues.

An important factor in the problem of international taxation is the behaviors of technology giants. Companies such as Facebook, Amazon, Twitter and Google operate in many countries and do not make tax declarations in the countries where they operate. In addition to this situation, the individuals and institutions that earn income from these companies can not be determined by tax authorities. The fact that the companies that are called as technology giants do not share information makes it difficult to taxation those who earn income from these companies.

#### 4. Conclusion

Technological advances, the mobilization of production factors as a result of globalization movements and the widespread liberal policies have led to tax problems in the international arena. Especially the spread of electronic transactions and income from the digital world have further complicated tax problems. The fact that the companies named as technology giants do not share information negatively affects the taxation of these companies. Many countries have often attempted to taxation technology giants with their own efforts and usually failed. This has led to the necessity of international authority in taxing these companies. The standards developed by the OECD on the taxation of multinational corporations and the automatic information exchange treaty challenge the global tax problem as a comprehensive solution. When the problems faced in the taxation of technology giants are evaluated, the introduction of standards in technology giants will solve the problem of taxation of technology giants. In addition to this, technology giants can be included in the automatic information exchange agreement, or a new agreement can be developed by OECD.

**Key Words:** Tax, Glabal Tax Problems, Problems of Taxation of Technology Companies.

**Jel Classification:** H00, H2, H29.

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## A Taxation Problem Caused by Digital Economy: Definition of Virtual Workplace

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### 1. Introduction

Although the extent of trading via the net, among other economic activities, rises tremendously every year, the deficiency in the taxation aspect, insufficient regulations and issues, manifest itself harshly both nationally and internationally. The term “workplace” in the economic activities carried out particularly in electronical environment is one of the major problems that traditional definitions cannot conceive, in which the use of taxation power cannot properly be assigned to the countries involved. This disturbs the principle of fairness in taxation, leading to the emergence of untaxed areas. Therefore, this study lays emphasis on the fact that the “workplace” concept should be redefined, in the light of the developments in the international arena, in terms of the economic activities carried out electronically.

### 2. Digital Economy and Its Effects on Tax Law in General

The word digital (numeric) refers to “electronic indicator” or “indication of data on a screen electronically” ([www.tdk.gov.tr](http://www.tdk.gov.tr)). In this sense, all of the economic activities carried out electronically via computers can be regarded as digital economy. Thus, any goods and services, dealt in economic activities via the net through the mobile devices (mobile phone, tablet, etc.) particularly PCs, are a part of digital economy.

Digital economic activities which cause the countries to go beyond their taxation powers and even make it impossible to use such powers have now become one of the most important items on the agenda of the taxation world. A number of points, such the fact that the digital activities are difficult to control, and the ambiguities in the delivery point of such goods and services, the detection difficulty led by mobile apps, and difficulties in detecting the taxpayer or responsible person, etc. are still pending a solution.

General impacts caused by the digital economy in the tax law can be listed as follows:

- taxation of internet games and gambling activities (Van der Paardt, 2009: 525-531),

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- taxation of online real-time teaching, online advertisement, online remote equipment-controlling), online database services (Zhu, 2014: 4),
- whether a web site or server can be considered as a workplace (Pahlsson, 2002: 198-202; Lexner, 2010: 21-36; Gianni, 2014: 1-38),
- Which country/countries will be entitle to the power of taxation (Pahlsson, 2002: 203-206),
- Difficulties in identifying the delivery of digital products and VAT (Pahlsson, 2002: 207-209; Bird & Gendron, 1998: 429-442),
- Taxation of cloud information services (Budak, 2017: 301).
- Difficulties and/or differences in identifying the taxation regime when it comes to digital economic activities, in terms of the arrangements contained in the national tax legislation.

### **3. Obstacle in the Use of Taxation Power: Workplace Concept**

One of the major problems caused by digital economy is the fact that it causes the traditional definition of “workplace” concept to lose its meaning, in terms of tax legislation. Such that, the traditional workplace forms a basis for the bond between the government which is entitled to the power of taxation and the activity to be taxed, to concrete and come into being as part of the national law. Especially, the fact that cloud information systems are widely used, with the increasing number of applications delivering services via mobile apps or websites, but the economic activities of which affect all countries, has led to the need to redefine the “workplace” concept.

When this is the case, the search for a solution, in terms of international taxation, has become more crucial and the most serious step was taken internationally by OECD in the respect. Especially, the discussions about the “workplace” concept, which began in the guidelines that it has shared with the public as regards the transfer pricing, began to concrete upon Base Erosion and Profit Sharing (BEPS) which was first initiated in 2013 (Payne & Raiborn, 2018: 472; Kara, 2018: 46). The first action of the mentioned action plan was determined as “Taxation of Digital Economy” No. 1 (Gulhan & Turunc, 2015: 171). In this context, BEPS Action plan also includes the suggestions concerning the direct taxes in the taxation of digital economy. (Uslu, 2017: 151-152). These suggestions are listed as “taxation via withholding at source, digital equalization fee (to be applied on the digital businesses which carry out business in a country but have no physical stock [<http://taxinsights.ey.com>, 2018]), digital asset-based workplace”.

#### **3.1. Definition of Workplace in National Law**

Natural persons who are full taxpayers as per Income Tax Law are subject to taxation, based on the earnings and income they earn inside and outside the country (GVK m. 3 / Income Tax Law Article #3). On the other hand, those with a limited liability to tax are subjected to special rules. Income earner is required to have a workplace in Turkey or have a permanent representative and gain income in such locations or via such

representatives, in order for a person with a limited liability to be taxed for commercial earnings in particular.

Of the taxpayers listed in the law as per the Corporate Tax Law, those whose workplaces or registered offices are located in Turkey, are subject to full taxation based on the entire income they earn either inside or outside Turkey. Those who have neither a workplace nor a registered office in Turkey shall merely be subject to taxation, based on the income they earn in Turkey only. In addition, commercial income, earned by foreign organizations who have a workplace or a permanent representative in Turkey, from such businesses or by means of such representatives, shall be subject to taxation.

Pursuant to the Tax Procedural Law in which the workplace is defined and regulated directly; *“a work place in commercial, industrial, agricultural and professional activity is a place such as, shop, office, bureau, surgery, workshop, branch, warehouse, hotel, café, amusement and leisure centres, farm field, orchards, vineyard, farm, livestock farming facilities, fishery and drive-in fishery, mines, quarries, construction sites, boat shops, etc., which is allocated to the execution of commercial, industrial, agricultural and professional activity and used for such activities.”* As is seen, national law has no definition of a digital workplace.

### 3.2. OECD’S Approach to Workplace Concept

A traditional workplace is usually a “fixed work place” in practice, in both national and international legislative arrangements. Thus, it is seen that the first chapters of OECD model convention include the definition of “fixed workplace” (article 5/1). Therefore, a fixed workplace means a fixed location where the works of a business are carried out entirely or partly. (draft contents of the 2017 update to the oecd model tax convention, 2017:12). furthermore, 2017 draft of the convention underlines what fixed workplaces cannot include. so, accordingly (OECD model convention 2017 draft, article 5/4):

- a) the facilities can only be used to store, display or deliver the goods and products of the business only;
- b) the goods and products of the business can be stocked for storage, display or delivery purposes only;
- c) the stock of the goods or products of the business can only be maintained, to be processed by another organisation;
- d) a fixed location of a business can be maintained to sell goods or commodities or gather information only;
- e) a fixed location of a business can be maintained to carry out any other activity of a preparatory or supplementary character, for a business only;
- f) only a fixed workplace can be preserved for any combination of a business.

Yet again, OECD Model Convention expresses that a fixed workplace can also mean a management place, branch, office, factory, workshop, mill and a mine, oil or gas well, a quarry or other places from which natural resources are mined (article 5/2).

### 3.3. Consequences of Insufficient Definition of a Workplace

Since the arrangements in either national law or OECD model convention strive to produce a solution, based on the fact that a place is stationary; they are not effective in the solution of digital workplaces introduced by digital economy. For instance, it fails to satisfy whether a web site can be considered a workplace or the type of taxation to be adopted for the income earned through the apps operated via mobile devices.

Governments' power in taxation concretes in the implementation of tax legislation, in terms of location. In other words, traditional workplace definition helps the government's power in taxation to concrete or the establish the solid bond between the transaction to be taxed and the power of taxation. However, it would be hard to establish such a bond in digital economic activities.

### 3.4. Reviews on Redefinition of Workplace

The fact that multi-national companies workplace can get around the workplace concept contained in the international regulations and the national law rules in the countries they carry our business, thanks to the complicated company structures and business models (uslu, november 2017:160), necessitates restructuring of the "workplace" definition. Such that, the fact that the traditional workplace definition is fixed into a stationary and physical point leads to failure in taxation of digital economic activities. According to the current concrete case, the governments go to remedies individually by means of judicial organs. (erdem, 2017:23). In this context, what's already been achieved through the efforts under the beps action plan no. 1, in redefinition of workplace and determination of the scope, suggests that a fixed place, if it is not preparatory and supplementary-, shall not be regarded as " permanent workplace", but in case there is a workplace which employs a significant numbers of employees and adopts "on time and on site" quick delivery to its customers, then such place shall be considered a permanent workplace, which will be subject to proper taxation. (for further info, please see; kara and oz, 2016: 33).

## 4. Conclusion

The development of digital economic activities require readdressing and reviewing the rules in every aspect, in which they apply. So, the tax legislation is one of the areas that is affected. That fact that the economic activities that are carried out via the net in electronic environment and the number of people who utilize such activities keep increasing continuously, has begun to affect the tax revenues of the countries, leading to the formation of untaxed areas by creating an environment for unfair completion.

Particularly, the economic activities offered via the apps available on the websites, cloud systems and mobile devices, which are regarded as virtual workplaces, have already exceeded the limits of the taxation powers of the countries, thanks to their unlimited features. Consequently, the outcome from either international or national studies, suggests that virtual workplace should be defined and thus taxational arrangement should be put in place. Therefore, it is urgently required to;

- strictly determine or define what can be regarded as a digital product or service,
- determine or define the aspects that can be regarded as a “workplace” in the virtual environment,
- determine how the taxpayers with a limited liability shall be handled, in terms of the taxes received based on earnings,
- to work out how and who will calculate and declare the taxes collected during the delivery of digital products and services, based on the expenses,
- determine how the mentioned issued will be addressed while the double taxation activities are arranged.

**Key Words:** BEPS, Digital Economic Activities, Workplace, Virtual Workplace

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# **The Financial Incentives in Financing of Energy Efficiency in Buildings: A Comparison between Turkey and European Union**

**Ayşe Yiğit Şakar<sup>1</sup>**

## **1. Introduction**

Today, energy efficiency shadows out its presence and significance in providing sustainable environment and economical development, in transforming energy expenses which are burden for the economy of the country, in reducing the risks of being dependent on import for energy, in providing the safety of energy supply.

Turkey is dependent on import in energy supply at the rate of 75,9 %. In our country, there is an increase in energy demand in the building sector with a 4,4 % average annually. The ultimate energy consumption share of the building sector has passed industry sector with the rate of 32,8%. As of 2017, around 87 % of 9,1 million number of buildings in Turkey are residential buildings (Ulusal Enerji Verimliliği Eylem Planı 2017-2023, 2017; 8). The rates of energy consumption in these buildings are similar to those in European Union, and energy efficiency are implemented as a government policy both in Turkey and European Union countries.

Energy efficiency, which serves sustainable development, is quite an extensive subject including building, transportation, agriculture, industry, technology and service sectors. The aim of this paper is to address the financial incentives in financing of energy efficiency in buildings comparatively in terms of Turkey and EU countries and also make inferences for our country.

## **2. Energy Efficiency in Buildings and Improvements in International Law**

Energy efficiency is described as the reduction of energy consumption without causing a decrease in living standards and service quality in buildings and production quality and its amount in industrial plants (Enerji Verimliliği Kanunu, m.3-j).

The relation between energy efficiency and air pollution was widely discussed in law. The aim of the promoting international support to this subject matter is to reduce air pollution and fuel import and get rid of the dependence on foreign oil resources through sustainable economical development (Sudhakara Reddy vd. 2009:186).

International Energy Agency (IEA) considers energy efficiency as “first fuel” (IEA, 2013:3). IEA assumes that two thirds of economically profitable investments, most of them in building sector, will not be used in order to increase energy efficiency until the

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year of 2035 (Deloitte, 2016:7). In 1970, European Council admitted that *the heat insulation in buildings paves the way for a significant reduction in fuel consumption* (Sudhakara Reddy vd. 2009:186). In 1972, The Organisation for Economic Cooperation and Development (OECD) added to Environmental Guidelines that *it is a beneficial method to establish high standards and regulations for better heat insulation in new buildings in order to increase efficiency* (Sudhakara Reddy vd. 2009:186). International Energy Efficiency Financing Protocol -IEEFP provides guidelines worldwide for local finance corporations to finance and make use of sustainable energy and savings-based renewable projects (EVO, 2012: x).

### 3. Financial Methods of Energy Efficiency in Buildings

Though energy efficiency is accepted as an important element of economical and environmental policy, there is no agreement on strategies to be followed to reach energy efficiency goals (Sudhakara Reddy vd., 2009:76).

The policy of energy efficiency is formed with the tools of state intervention in the energy market aiming to remove the obstacles before energy efficiency investments. Although these tools are standard policy measures such as, taxes, subventions, laws, legislations, information or service presentation, there are different kinds of applications depending on sector (Sudhakara Reddy vd. 2009:100).

The methods below are used in financing energy efficiency: (<http://beva.csb.gov.tr/Sayfa.aspx?id=29>):

***“Financial tools;*** can be sorted as *preferential loans usually in non-repayable terms, public financing, credit lines for SMEs and householders, subventions (internal financing) and grants (foreign financing), credit guarantee programs for private banks, reforms in energy tariffs.*

***Financial incentives;*** carbon, energy and environmental taxes and VAT tax deductions, investment incentives.

***Distribution mechanisms;*** Technical Assistance for project identification and preparation in loan and public procurement, Energy Service Company (ESCO) market, performance contracts and third party financing, legal obligations for utilities, energy efficiency funds and voluntary agreements.”

#### 3.1. Financial Incentive in Financing of Energy Efficiency in Buildings: EU Application

The main policy strategies affecting the building sector and energy efficiency applications in the EU can be classified as energy-focused initiatives, regulations for buildings, climate change and product-focused work (CEPMC, 2012: 43).

It is not surprising that energy efficiency is tightly linked to the three pillars of the European Union energy policy: **security** (supply security, import independence, safe production), **sustainability** (reducing greenhouse gas emissions) and **competitiveness** (for cost-efficient energy users)(Deloitte, 2016:7). According to data from the year

2014, 30% of the amount of greenhouse gas emissions in the European Union comes from the buildings. This is equal to about 40% of the total energy consumption of the European Union and 75% of buildings are energy inefficient. (European Commission, 2016:2). The residential buildings, which were built between 1945 and 1980, consume a lot of energy, and due to the recent economic crisis, funds are inadequate to renew these buildings (European Commission, 2017:10). In 2010, the European Commission published a notice entitled "Energy 2020 - A Strategy for Competitive, Sustainable and Secure Energy" (European Commission, 2010).

The European Commission considers buildings as important potential to achieve its goal of 20% energy efficiency in 2020 and foresees to develop financial programs targeting the projects in this area. By 2050, the EC has aimed greenhouse gas emissions to be between 88% and 91% in the building and service sectors with the "Roadmap for Progress towards a Competitive Low-Carbon Economy" in 2050. One of the actions that it has set out to achieve this goal is to encourage and support renovation investments. (CEPMC, 2012: 44). The resources required to finance energy efficiency in buildings in the European Union are planned centrally with the decisions that EU Commission has made. The control and usage of these resources are carried out by the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB). These institutions provide long-term low interest loans to member states' governments, local governments, public banks and commercial banks to be used in Efficiency Raising Projects (VAPs) at all premises, primarily for housing and public banks. In addition to these, with the Horizon 2020 program created by EU member states to support R & D projects, energy efficiency-enhancing innovative works are supported in the buildings (Tarım, 2017: 20). Member States re-plan and distribute the financial resources they receive from the funds provided by the central government, by taking the population, income distribution and economic conditions in their countries into consideration. While some of these resources are given to the ones with low-income as grants, some are used to promote VAP applications. Besides, member states distribute the resources they allocate from the state budget through the public banks according to the size of the energy potential in the buildings that they have determined by the energy studies (Tarım, 2017:20).

Financial tools used in energy efficiency in EU member states are (Tarım, 2017:6):

- Grants
- Direct subventions
- Interest rate subvention
- Tax exemption, tax deductions and tax returns
- Discounted VAT rates
- Risk assurance
- Performance guarantees
- Energy performance contracts
- Energy efficiency programs of energy company



### **3.1.1. United Kingdom**

Government support is provided for the projects to establish renewable energy systems to reduce external dependency on natural gas consumption in residential heating in United Kingdom. The amount of grants incentive calculated at a unit price determined by the government is paid to the landlord's bank account every 4 months. This government support, which doesn't have a tax incentive, is applied for 7 years (Tarim, 2017:25).

### **3.1.2. France**

In France, government incentives called "tax credit" are given to support projects in order to increase energy efficiency in residential buildings (Tarim, 2017: 28). The reduced rate of VAT of 5.5 %, applicable is only for work to improve the energy quality of housing constructed more than two years earlier (Directorate- General for Energy and Climate, 2017:27). In addition, 10-year interest-free loans are provided for buildings built before 1 January 1990 (Tarim, 2017:31).

### **3.1.3. Germany**

The Energy Efficiency Incentive Program is a subsidy for 3 years. The application of this program started in 2016. The amount of the project is financed by low interest loans. After the investment is completed, 600 Euros and 35% of the project fee are paid back (Tarim, 2017: 26). Tax deduction is also provided for craftsmen's bills (Federal Ministry for Economic Affairs and Energy-BMWi, 2015: 70).

### **3.1.4. Poland**

In Poland, investors who carry out thermo-modernization and renovation projects to reduce energy consumption are provided financial support in the form of grant. The Fund is managed by the Polish State Development Bank Gospodarstwa Krajowego (BKG) (Tarim, 2017: 34).

## **3.2. Financial Incentive in Financing of Energy Efficiency in Buildings: Turkey Application**

Within the scope of the "Law on the Amendment of Certain Laws for the Improvement of the Investment Environment" numbered 6728, which was enacted on 15 July 20, in Income Tax Law No. 193 and Stamp Tax Law No. 488 incentives were provided for the works carried out in order to provide heat insulation and energy saving in the buildings. With this regulation, due process of the article 40/7 of the Income Tax Law expenditures made to save energy and heat insulation can be deducted as expense from the tax base. With the amendment made in the Stamp Tax Law, tax exemption has been provided for all kinds of documents set during the expenditures made for

heat insulation and energy saving. (DVK II sayılı liste-IV/47 fıkra). With the paragraph added to Article 123 of the Fee Law no. 492, transactions made to provide heat insulation and energy saving are exempted from the fees. In addition to these incentives, public banks and commercial banks have been provided resources in different amounts for different purposes. Additionally, KOSGEB provides grant support for energy etudes and VAP applications to be made by small and medium sized enterprises (SME) in health, tourism, education and culture sectors.

#### 4. Conclusion

Energy efficiency is of vital importance for both Turkey's and the European Union's present and future. Turkey has adopted the financing methods in the same direction with of the European Union's implementations. In the European Union countries, loans with lower interest rates are provided in the form of grants rather than tax incentives. However, in some countries tax credits and tax deductions are also provided. By 2016 in Turkey, in Income Tax Law expenditure deduction has been made, but in Stamp Tax Law and in Law of Fees some exceptional application has been introduced for the transactions made to provide heat insulation of the buildings. VAT deduction, title deed fees deduction, property tax deduction and the removal of Banking and Insurance Transaction Tax are demanded in energy efficient buildings in construction sector. (Acuner, 2014:34). Satisfying these demands will create positive results in terms of energy efficiency in buildings.

**Key Words:** Energy Efficiency, Energy Efficiency in Buildings, Financial Incentive, Grant, Tax Deduction, Subvention.

**JEL Kodu:** H21, H26, K34

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# Evaluation of Effectiveness and Enforcement of the European Union Fiscal Compact Agreement for Turkey

Abdurrahman Taraktas<sup>1</sup>

## 1. Introduction

The coordination of economic policies has been one of the cornerstones of the European Union (EU) since its establishment. Due to the global financial crisis and ongoing borrowing financing problems in several EU countries, various reforms have begun to be implemented in the European Union. Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) or the Fiscal Compact with a more recognizable name is an intergovernmental agreement signed on 2 March 2012. This study analyzes the content of the Fiscal Compact, and discusses the challenges can be met for the implementation and validity, also assessing the effects for the Turkey, a candidate country. The first part of the work deals with the Fiscal Compact Agreement and other financial measures. In the second part, there are evaluations in the light of studies in the literature analyzing the effectiveness of fiscal rule application. In the third part, the practical success of the Fiscal Compact, the parties are examined in accordance with the financial data of the states, and harmonization of Turkey's financial data is considered. The results are set forth in the section reached the extent that the objectives of the Fiscal Compact Agreement and includes evaluation and recommendations for Turkey.

## 2. History and Content of Fiscal Compact Agreement

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) was adopted by all member states of the European Union on March 2, 2012, with the exception of the United Kingdom, the Czech Republic, and Croatia (because they are members of the EU in July 2013). The Convention entered into force on 1 January 2013 for the 16 Member States which have completed ratification before this date. Has been fully ratified as of April 1, 2014 and has entered into force for member states with 25 signatures. The Fiscal Compact is the fiscal part of the contract (Title III). This arrangement links the 22 member states: Bulgaria, Denmark and Romania in addition to the 19 member states within the Eurozone. The Fiscal Compact contains a set of common principles that must be observed.

The monetary policy in the euro area (the EU countries that accept the euro) is determined by the European Central Bank (ECB). Thus, while determining the central bank interest rates and monetary expansion tendency is only within the scope of the

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ECB, taxation and public expenditure are under the control of national governments within the balanced budget limits envisaged by the Stability and Growth Pact. Despite the EU's monetary union, there is no fiscal unity. The proposal to create a much larger monetary union in the euro area was seen as a necessary solution to the next natural step in European integration from the beginning of 2010 or against the 2010 European debt crisis. Nevertheless, it is foreseen that the process of establishing a fiscal association will be a long term project.

At the Council of Europe meeting on December 9, 2011, 17 members of the Eurozone agreed on a basic draft of a new agreement between governments, which puts strict limits on public spending and borrowing and punishes countries that have violated their borders. Except the United Kingdom, all other countries outside the euro zone also state that they are prepared to be subject to parliamentary votes. Initially, EU leaders planned to change existing EU treaties, but this was hampered by British Prime Minister David Cameron, who demanded that London City be removed from future fiscal regulations, including the proposed EU financial transaction tax. Thus, the Fiscal Compact was regulated as a separate intergovernmental agreement outside the formal EU treaties as it was in the first Schengen Treaty in 1985. However, it also includes a provision for inclusion in EU legislation in January 2018, five years after it entered into force.

Under the Fiscal Compact Agreement, the Parties shall enforce the following rules without prejudice to their obligations under the laws of the European Union (EC: 2012):

- a. The budgetary position of the general government shall be balanced or in surplus.
- b. The rule under point a) shall be deemed to be respected if the annual structural balance of the general government is at its country-specific medium-term objective as defined in the revised Stability and Growth Pact with a lower limit of a structural deficit of 0.5 % of the gross domestic product at market prices. The Contracting Parties shall ensure rapid convergence towards their respective medium-term objective. The time frame for such convergence will be proposed by the Commission taking into consideration country-specific sustainability risks. Progress towards and respect of the medium-term objective shall be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, in line with the provisions of the revised Stability and Growth Pact.
- c. The Contracting Parties may temporarily deviate from their medium-term objective or the adjustment path towards it only in exceptional circumstances as defined in paragraph 3.
- d. Where the ratio of government debt to gross domestic product at market prices is significantly below 60 % and where risks in terms of long-term sustainability of public finances are low, the lower limit of the medium-term objective specified under point b) can reach a structural deficit of at most 1.0 % of the gross domestic product at market prices.

e. In the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically. The mechanism shall include the obligation of the Contracting Party concerned to implement measures to correct the deviations over a defined period of time.

### **3. Studies and Findings about Effectiveness of Fiscal Rules**

According to Kukk and Staehr (2015), it is important to consider the different implementation experiences of fiscal rules in order to assess the possible effects of the Fiscal Compact. The study by Kopits and Symansky (1998) found that there are a number of conditions for a well-designed and effective fiscal rule. Therefore, according to them, no fiscal rule can fulfill all the requirements. Most states in the United States use fiscal rules and restrictions, and their effects have been examined in a number of articles. Bohn and Inman (1996) found that fiscal rules were only effective when they were included in the state constitution and when audited by an independent high court. The results emphasize the importance of implementing the fiscal rules. The results of developing countries are generally not promising. Thornton (2009) investigated the impact of fiscal liability laws on nine emerging economies and found that the legislation was not a significant influence on fiscal balances.

From studies focusing on the EU AB'ye odaklanan çalışmalardan Buti and Giudice (2002) assessed the effectiveness of the Maastricht Treaty's debt and budget deficit criteria and found that the criteria were influential in closing the deficit of the parties. Annett (2006) evaluated the first experiences of the Stability and Growth Pact (SGP) (1999-2004). The cyclically adjusted equilibrium has improved significantly in most of the small Eurozone countries and in Spain, but has deteriorated considerably in major countries, Germany, France and Italy. Wyplosz (2005) and De Haan et al. (2004) concluded that the effectiveness of fiscal rules depends on institutional regulation and that the implementing mechanisms of the SGP are very weak. Fatas and Mihov (2010), Ioannou and Stracca (2011) did not find any impact of the SGP on the primary fiscal balance in their work. Marneffe et al. (2011) show that a fiscal rule index determined and applied at the national level in the Eurozone countries has statistically significant effects.

### **4. Evaluation of the Implementation of Fiscal Compact Agreement**

It is not surprising that most of the EU countries have not achieved the structural objective of the Fiscal Compact when most of the difficulties in estimating and implementing the structural adjustment as a short-term target are taken into account. Table 1 shows the data on the structural balance for the Eurozone countries. There is no clear evidence that countries tighten their fiscal policies and improve their structural balances, once the Fiscal Compact enters into force in 2013. When we look at Turkey's structural deficit, it is seen to be quite high from the target value of 0.5%. It is also seen that the structural deficit gradually improved until 2015 and then deteriorated again in 2016.

**Table 1. Structural Central Government Budget Balance to GDP Ratio in Eurozone Countries and Turkey (%)**

	2012	2013	2014	2015	2016
<b>Belgium</b>	-3,12	-2,69	-2,63	-2,24	-2,29
<b>Germany</b>	0,04	0,59	0,71	0,61	0,53
<b>Estonia</b>	-0,37	-1,14	-0,78	-0,69	-0,71
<b>Ireland</b>	-7,08	-4,76	-3,77	-3,33	-3,29
<b>Greece</b>	0,05	3,14	2,02	1,63	0,97
<b>Spain</b>	-3,62	-2,33	-2,16	-2,34	-2,83
<b>France</b>	-4,27	-3,28	-3,03	-2,93	-3,42
<b>Italy</b>	-1,64	-0,80	-0,90	-0,81	-1,03
<b>Cyprus</b>	-5,49	-2,12	-0,84	-1,33	-1,05
<b>Latvia</b>	-0,05	-1,03	-1,47	-1,64	-1,52
<b>Luxembourg</b>	1,54	2,02	1,11	0,40	-0,06
<b>Malta</b>	-3,84	-2,71	-2,75	-2,92	-2,36
<b>Netherlands</b>	-2,23	-0,60	-0,54	-0,81	-1,06
<b>Austria</b>	-1,84	-1,27	-1,11	-1,00	-0,69
<b>Portugal</b>	-2,31	-1,94	-1,35	-1,67	-2,01
<b>Slovenia</b>	-1,82	-1,81	-2,51	-2,19	-2,83
<b>Slovakia</b>	-3,39	-1,36	-2,10	-1,28	-1,14
<b>Finland</b>	-1,05	-0,73	-1,10	-1,10	-1,32
<b>Euro area</b>	-2,11	-1,19	-1,09	-1,10	-1,34
<b>Turkey</b>	-2,86	-2,71	-2,29	-2,18	-2,60

**Source:** For European data; The European Commission's Ameco database [http://ec.europa.eu/economy\\_finance/ameco](http://ec.europa.eu/economy_finance/ameco), For Turkey data; IMF Cross Country Macroeconomic Statistics, [https://www.quandl.com/data/ODA/TUR\\_GGSB\\_NPGDP-Turkey-General-Government-Structural-Balance-of-GDP](https://www.quandl.com/data/ODA/TUR_GGSB_NPGDP-Turkey-General-Government-Structural-Balance-of-GDP). [Son erişim: 21.02.2018]

## 5. Conclusion

There is broad perspective on the effectiveness of Fiscal Compact. Some argue that the Fiscal Compact is a simple austerity tool, while others argue that the features of the countries do not participate in the account of broad fiscal goals. Some of them believe it can be effective by increasing the countries responsibilities for financial management. Returning to practice, countries can operate with a large expected structural surplus to ensure that the likelihood of violating the criteria in the Fiscal Compact is low. Such an approach can sometimes lead to an unnecessarily restrictive fiscal policy. However, clarifying the objectives of the research on fiscal rules and the increase in ownership at the national level reveals that positive results can be



observed. In this respect, it is foreseen that the Fiscal Compact will be one of the most important factors contributing to the structural budget balance and the increase of financial sustainability in the EU. A fiscal rule bill prepared in 2010 in Turkey but has not enacted until today. Structural deficits can be reduced to acceptable levels by applying a nationally adopted fiscal rule targeting short-term structural balance.

**Key Words:** European Union, Fiscal Compact, Structural Budget Balance, Coordination of Fiscal Policy

**JEL Codes:** E61, E62, F45

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## Tanzimat Era Fiscal Problems in the Articles of Namik Kemal

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Semra Taş<sup>2</sup>

Selçuk İpek<sup>3</sup>

### 1. Introduction

Seen as a period of innovation and reorganization, Tanzimat Era is considered to be the beginning of a new period in finance in the Ottoman Empire (Şener, 1990: 21). The efforts made for the Ottoman Empire to become both politically and financially more powerful seem to have reached its peak during Tanzimat Era. The efforts extended until the beginning of 19th century.

During Tanzimat Era many problems have been encountered in various fields, mainly financial. The primary problems of the period include taxation, capitulations, increase in foreign debts, abandonment of the land of the peasant and their migration from rural areas to cities, and therefore decrease in agricultural production, bribery and corruption in the empire's administration. These problems that have been encountered in the post-Tanzimat period were recorded in official documents and other historical sources. Some of them were reflected in the works of journalists, poets and writers who lived at that period. In addition to official sources, analysis of the works conducted by the intellectuals of that era such as Namik Kemal can enrich the history of the finance and contribute to the problems of the period from different angles.

In this study, the financial problems of the Tanzimat Era will be tried to reveal through Namik Kemal's view, who is one of the most important men of literature, poets and journalists of that period.

### 2. A View of Financial Problems During Tanzimat Era

Tanzimat Era which started with the announcement of Gülhanı Hattı Humayun (The Edict of the Rose Chamber) on 3 November, 1839, is of importance both in terms of economic and financial history of the Ottoman Empire since it is a period of change and development (Cezar, 1984: 291). During this period, a number of regulations were introduced in financial matters. However, due to the deviations that took place during the implementation of the regulations, the financial problems could not be resolved

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and continued (Çakır, 2001: 101). One of the most extensive problems that arose during the Tanzimat Era was related to taxes. The main problems with taxation were as follows; the heavy tax burden that the peasants suffered, since that burden was not distributed fairly among people, and the incorrect determination of tax collection periods. The spending of tax revenues obtained in the Tanzimat Era in luxurious spending and in paying debts caused significant problems. The habitual loaning of Ottoman Empire starting from 1854 and the wrong fiscal policies has led public revenues to remain at a level where the debt can not meet the interest payments. Besides those, corruption and bribery were some of the financial problems of Tanzimat Era.

### 3. Financial Problems in Namık Kemal's Articles

Namık Kemal, who has been working on various fields of literature such as poetry, prose, theater, novels and criticism, has written on various newspapers on problems faced by Ottoman Empire in 19th century. Namık Kemal thought that the collapse of the Ottoman Empire are caused by economic and political issues. He focused both on the problems and their resolution (Kurdakul, 2003: 83). In those articles, he criticized the capitulations granted to European countries and argues that the government should follow a protective policy against European states (Kocakaplan, 2009: 28).

In his articles published in newspapers mainly named as *İbret*, *Hadika* and *Tasvir-i Efkâr*, Namık Kemal discussed taxation, public expenditure and public debt. His article 'Why not collect taxes and soldiers from İstanbul?' published in *İbret* was about the taxation problems. He severely criticized Ottoman tax policy in his article named 'Tekalif (Taxes)'. In those articles, Namık Kemal expressed his dissatisfaction about the low and middle classes in the rural areas being labored under heavy taxes. He also mentioned that a significant portion of the taxes were transferred to Europe since the taxes were used on paying external debt interest payments. He also criticized the non-taxation of İstanbul and he questioned the tax policies applied by the central administration on behalf of Ottoman society. He interpreted both the troubles experienced by the peasants who paid tithe and the creditor Galata Bankers obtaining wealth through lending Ottoman Empire as injustice. Moreover, he connoted that the non-Ottoman citizens dealing with trade in the Ottoman dominions gained privileges in favour of their subjects and exemption from taxation due to the capitulations granted to the European states.

Another issue that Namık Kemal dealt with in his articles was the increasing governmental debt. Namık Kemal believed that the government spent its resources obtained through external borrowing unwisely on paying its external debts. He suggested paying budget deficits with domestic borrowing instead of external borrowing. He also suggested to increase saving measures of Ottoman Empire (Çadırcı, 1991: 47).

In his publication named 'İstikraz' Namık Kemal criticized the words of one of the grand viziers of the period, Fuat Pasha, who declared as "This empire can not live without

consistency' and he attracted attention to the economic and legal problems caused by foreign borrowing.

#### 4. Conclusion

Historically, each era has its own unique qualities and issues of that are recorded in official sources. However, these resources are prepared by the state, and in some cases they can get away from the objectivity. For this reason, the opinions of those who lived in that relevant period and witnessed the events personally are also important.

According to Namık Kemal, one of the reasons for Ottoman Empire being in a declining and difficult period lies beneath the matters occurring in the financial area. According to his analysis of this period, the government frequently called upon foreign borrowing and did not adequately assess its borrowing income. The capitulations recognized for European states, the tax exemptions given to European traders, and the tax burden remains on agriculture are the main problems in Namık Kemal's articles.

**Key Words:** Fiscal History, Tanzimat Era, Fiscal Problem, Namık Kemal

**Jel Codes:** N00

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## Tax Structure as a Indicator of State Capacity

Çağlayan Tabar<sup>1</sup>

Ufuk Selen<sup>2</sup>

### 1. Introduction

The standard economic theory assumes that almost all states are effective. It is recognized that all states have sufficient administrative infrastructure to secure property rights, the capacity to operate the necessary judicial system to regulate the disputes, and to carry out the necessary market regulations. Studies of optimal taxation explicitly acknowledge informational constraints, but implicitly assume a bureaucracy able and willing to enforce any tax policy respecting those constraints (Besley & Persson, 2009: 1219). However, the ability to identify and implement policies differs from one country to another. This situation is expressed by the concept of state capacity. There is no clear definition of the state capacity that has been agreed upon. However, many studies have adopted a capacity definition that focuses on the ability of the government to effectively implement the policies that are set. It is emphasized that state capacity is important in studies on the role of the state in economic development. Thus, the concept of state capacity began to be used predominantly by policy makers and academics. However, since there is no consensus on state capacity, how to measure state capacity is also a matter of debate. It will be argued in this study whether the tax structure can be used as a indicator of state capacity.

### 2. Definition of State Capacity

It is seen that the definition of the concept of state capacity is not fully established in the literature and is therefore defined in different ways by various authors. However, most authors emphasize the state's policy implementation and enforcement power in the definition of state capacity. We define state capacity in parallel to the literature as "the capacity of the state to implement and enforce the decisions taken within its own domain of dominance". According to this definition, a high-capacity state can effectively implement a wide variety of policies. It should be pointed out that even the most powerful state can not implement any kind of policy effectively or excellently to all policies. A highly capable state will be better able to implement policy than a less capable state (Rogers & Weller, 2014: 185). In other words, state capacity refers to the quality of the policies that the state implements while fulfilling its functions.

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### 3. Components of State Capacity

State capacity, according to the functions the state has, is generally agreed to consist of four components: administrative, legal, fiscal and military capacity.

1. **Administrative Capacity:** It expresses the capacity of the bureaucracy that it needs to implement policies that will ensure the continuity and development of the state.
2. **Legal Capacity:** It refers to the capacity of the state actors, civil servants, non-governmental organizations and citizens to act lawfully and legally within the framework of the lawfulness and rules of the whole society, and to punish every wrongdoing and injustice and to protect the rights (Gökçe, 200: 221).
3. **Fiscal Capacity:** It is the ability to provide the financial resources that the state needs in order to fulfill its functions and is closely linked to the emergence of the administrative capacity. This component emphasizes the power of the state to transfer resources from society to itself, predominantly in the form of taxes. The centralization of states' tax system and the spreading of the tax base are key elements in the development of state capacity. Revenue enhancement measures are the usual indicators for capacity (Besley & Persson, 2009, 2011).
4. **Military Capacity:** Refers to the ability of the state to dissuade and repel its threats against its authority, that is, its ability to resist internal and external security threats.

The components determined according to the functions of the state above are not completely independent and disconnected from each other. Developments that occur on a particular type of capacity can affect other types of capacity. For example, the strengthening of administrative capacity facilitates the identification and monitoring of taxpayers. The strengthening of the legal capacity contributes to the development of the market. These contribute to the increase in tax revenues and therefore the fiscal capacity.

### 4. Measurement of State Capacity

There is no consensus on the measurement of this capacity, since there is no consensus on the definition of state capacity. At this point, researchers use a variety of measurement methods depending on what they mean by state capacity. These measurement methods are generally divided into objective and subjective measurement methods. Some of the objective measurement methods consist of quantitative data, while others are rule-based. Examples of quantitative data include per capita national income, per capita public expenditure, per capita defense spending, share of taxes in national income, and so on. measurement methods are used. The rule-based measurement method is formed by rating the existence and power of some formal rules.

Alternatively, subjective measurement methods are based on perception, in other words, ratings are based on perceptions of actual behavior of rules. These perceptions

are measured, by evaluating the views of expert (such as risk rating agencies, foreign investors, academics, NGOs) and / or survey results of national participants (firms or individuals) (Savoia & Sen, 2015: 443-444). One of the most used indexes to measure state capacity is the "Government Effectiveness" and "Regulatory Quality" indicators in the Worldwide Governance Index (WGI) published by the World Bank. Another index used to measure the state capacity is the "Government Regulations are Effectively Enforced" indicator published by the World Justice Project.

## **5. Tax Structure as a Indicator of State Capacity**

Taking into account the general qualifications of obtaining tax revenue, many researchers use data on tax collections as a measure of state capacity. Because the collected taxes both show the result of an applied state policy and are influenced more or less by the whole components of the state capacity. In this sense, the most widely used criterion is the share of tax revenues in GDP. But, the use of this criterion is controversial. Because the tax collection level reflects a policy choice rather than the state capacity. In addition, different types of income differ significantly in terms of administrative complexities and political influences. For example, taxation of income is more difficult than taxation foreign trade. For this reason, the tax structure reflects state capacity better than the share of total tax revenues in GDP.

## **6. Conclusion**

State capacity, defined as the power of policy-making and enforcement, is a very important concept both in the politics of the state at the national level and in international comparisons. Because it allows more accurate analysis. Despite the importance of the concept, there is no consensus on how to measure state capacity. The method of measurement is also changing depending on how the concept is defined in studies on state capacity. Although subjective measurement methods are generally used in the literature, the necessity of using objective measurement methods is emphasized. It is accepted that taxation can be used as an objective measurement method. At this point, taxation is used in two ways as an indicator: "tax burden" and "tax structure". There is a separate debate about which one is better.

The tax burden reflects the outcome of policy choice. Therefore, the power to represent and explain the difficulties experienced in the taxation process in terms of tax elements is rather weak. It is considered that the tax structure representing the proportion of the sub-tax elements in total tax revenues is more explanatory than the tax burden in two aspects. First, the tax structure is the result of a government policy implemented. Second, it is more or less affected by all of the components of state capacity. Because of these two features, it is considered that the tax structure will allow for a more realistic measure of state capacity. From this point of view, if the share of tax on income is high in the total tax revenues, the state capacity is high, and if the share of tax on income is low, the state capacity is low. Empirical results also support these considerations.

**Key Words:** State Capacity, Taxation, Fiscal Capacity, Tax Structure

**JEL Codes:** H21, H26, K34

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## **Fiscal Democracy: A New Concept in Public Finance and Many-Sided Debates**

**Metehan Cömert<sup>1</sup>**

### **1. Understanding Fiscal Democracy in Public Finance Approach and Moving Beyond**

Current developments after the ‘Great Recession’ have led to structural transformations in public finance thought and past theoretical conflicts have gained new dimensions. Problems which might be classified in an economic/fiscal context such as low economic growth rates, slow recovery in the post-crisis period, dramatic inequality levels, the reality and severity of ecologic crisis, have moved beyond economic sphere and debates encompassing the economic field but also exceeding it by being diffused into social and political fields have become main objects of inquiry of social sciences. This study, which aims to make sense of abovementioned transformation and to provide a many-sided debate, therefore, conceptualizes the ‘state’ and ‘democracy’ within public finance discipline and argues “fiscal democracy” which is a new term in public finance literature on a broad basis. To that end, this study seeks to provide a multi-faceted analysis by examining both theoretical and empirical aspects of “fiscal democracy” and “fiscal democracy index” and argues “the crisis of welfare state” and “the crisis of democratic capitalism”.

### **2. Fiscal Democracy and Fiscal Democracy Index: Many-Sided Debates**

The concept of “fiscal democracy” and the “fiscal democracy index”, which might be considered as an extension of the concept, first appeared in the study of Eugene Steuerle (2010). Steuerle aims to show how fiscal/economic decisions taken in the past have shaped the present and how past decisions have the potential to deplete the future by exhibiting the transformation of fiscal world in a historical context. Steuerle (2016), classifies government spending as mandatory and discretionary spending, obtained fiscal democracy index by subtracting mandatory government spending from total revenues of governments and asserted that fiscal democracy index turned negative for the first time in USA history after the 2008 crisis. In a similar vein, Wolfgang Streeck (2010), aims to obtain fiscal democracy index for Germany, which is quite different from USA in terms of economic conditions, alleged that Germany has a similar tendency, too.

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The first and foremost conclusion which arises from the empirical results of the index is that democratically elected governments face a governance problem stemming from the accumulated policy legacies. The governance problem, which might be seen as a result of basic causality relation, deserves a multidimensional analysis. As a matter of fact, the assertion that past decisions are a heavy burden to public budgets not only affects the decisions of today, but also future decisions and generations. Moreover, this phenomenon, which is described as “past swallows the future” by Thomas Piketty (2014), serves as a fundamental reason for the naturalizing the idea of austerity as a primary policy tool and directly targets social spending seen as a natural outcome of benign state.

The historical transformation, which might also be defined as “the crisis of welfare state” (Rosanvallon, 2004) or “the crisis of democratic capitalism” (Streeck and Mertens, 2013), is also evaluated in an ontological relation with ‘democracy’. Democratically elected governments, facing the problem of having an impact on the ‘now’ and ‘the future’, cannot cope with the costs of past spending and decisions that growth incrementally, and only covers old programs rather than enhancing new programs without making any commitment, thus gradually losing their economic sovereignty. This fact causes democratic governments not to make any promises to their voters in today’s world of dramatic inequalities, therefore, becoming widespread of the idea that ‘welfare state, which is a mixture of democracy and capitalism, has reached its limits’. The direct consequence of this development is that democratically elected governments has lost their ability of governance and democracy also has lost its function/importance (Appadurai, 2017).

The concept of fiscal democracy (index), conceptualized within the boundaries of public finance discipline, moves beyond public finance thought, indicating the necessity of many-sided analysis. As Wolfgang Streeck clearly puts it by using “interregnum” concept in Gramsci’s sense, “the old is dying and the new cannot be born”. In the interregnum period, all familiar chains of cause are no longer in force and instability is the ultimate stability (Streeck, 2017a). So, it seems essential to adress the concept of fiscal democracy in a broad context and discuss possible tendencies of this phenomenon on a many-sided basis. As a matter of fact, the historical process in which the tax state first evolves into debt state and then into consolidation state (Streeck, 2017b) justifies the claim of capturing the unforeseeable time (Lazzarato, 2015; Ross, 2015) and changes fundamentally the idea of governance which might be seen as an fundamental research area of public finance discipline. As a conclusion, the concept of fiscal democracy should be broken down both theoretically and empirically in a detailed manner, and examined by taking into account both present- and future-oriented analysis on an interdisciplinary manner.

### **3. In Lieu of Conclusion**

This study mainly examines the concept of “fiscal democracy” both in theoretical and empirical context and first tries to understand the concept within the public finance discipline. This study, which claims that it is out of possibility to understand the

concept within the boundaries of public finance, argues the necessity of understand fiscal democracy beyond conventional debates by benefiting from the broad context of social sciences and suggests a multidimensional analysis, thus indicating possible future analysis.

**Key Words:** Fiscal Democracy, Fiscal Democracy Index, Public Finance Discipline, Welfare State, Democracy.

**JEL Codes:** Z13, N00, P00

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## Evaluations on It's Applicability of Tax Friendly Tax System in Turkey

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### 1. Introduction

The public benefits from instruments such as tax, expenditure, debt policy in fiscal policy applications for economic growth and development purposes. The most common of these purposes is the tax policy.

The purpose of this study is that question the functioning of the relationship between tax and growth on the structure of the current Turkish tax system. By using the literature review in the study, the Turkish tax system and internationally experienced developments will be addressed to preventive / supportive taxation. Therefore, the population of the study is the growth focused tax policies in the world and target population is the Turkish tax system.

The study the tax behaviors that affect the dynamics of growth in Turkey, which is a topical issue "tax noncompliance" is important in terms of the context of the assessment.

In the first chapter of the study refer features of growth focused tax system. In the second chapter, the process of establishing and processing tax policies, problems and suggestions in tax legislation and practice will be explained. In the last chapter of the study, the role of tax administration and tax management in economic growth, the purpose, effectiveness, financial dimension of tax expenditures and the nature of recent changes in taxation services will be examined.

### 2. Features of a Tax Friendly Tax System

The main factors of production affecting the growth of a country are definitely labor and capital. Since the middle of the 1970s, the decrease in strength with the crisis has caused growth rates to decline and investments to fall. The decline of growth rates in capital or labor intensive in all countries has introduced the concept of devaluation of the capital. A conjuncture in which the capital is devalued required to adding technology to the basic elements of the growing (Savran, 2013: 69).

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Nowadays, technology to deliver the products produced by the new production techniques to the individuals with the help of the market emphasizes demand for the state to change in the field of taxation. Examining of the relationship between growth and taxation the quality of tax reforms is important. Growth can be negative affected when tax reforms with assistance of the tax system and the tax rates give advantages to some segments of society and cause disadvantages to other segments. Assuming that the public advocates a fair approach at the point of effectiveness in resource allocation, why should the public choose to provide privileges to some segments of society? What does the public function for managing the relationship between growth and equity in income distribution?

In 1956 theory of growth briefly explains the answer to this question by Solow. Namely, the public authority with tax reforms make some investment instruments more profitable in the capital market, they also have power to reduce desire of the workers in the labor market. For this reason; growth of GDP develops countries which have the level of technological productivity, the capital stock and strong human capital (Engen & Skinner, 1996: 2).

In this sense the public has power to influence labor supply and labor participation in the markets with income tax on wages. On the other hand, in EU countries and Turkey tax system, interest on equity isn't considered as a cost so it causes that companies face extreme borrowing by encouraging to borrow instead of equity (Batirel, 2015: 3).

A tax friendly tax system should have some features for each country for continuing and positive effect of taxation for each country;

- Predictability
- Transparency and Accountability
- Financial Resource, Economic, Social Purpose Balance
- Income Distribution Effect
- Increasing Savings
- Direction of Resources
- Tax Provisions in Constitution and Law
- Problems and Suggestions in Tax Legislation and Practice etc.

We would like to say that the factors which emphasize fundamental aspects of the tax system like above, they've the same levels of importance of each. In this part of our study, the factors will briefly explain which is we've already said and have a great influence on growth.

## **2.1. Predictability**

The laws contains the person or institutions from the date on which it entered into force. Therefore, tax laws couldn't apply situations that occur before the law enters into force (Pehlivan, 2011: 35). In this direction, we can say that the tax laws are aimed simplifying on the tax liability of the taxpayers. Because, on economical perspective taxpayers act according to functioning of current laws when they're planning the

future. Otherwise, if a new law rules which is involved by prior situations of taxpayers can damage for the future and tax noncompliance can occur for taxpayers.

## **2.2. Transparency and Accountability**

In recent years, civil society organizations that carry out their activities as social actors of development has undertaken a duty that prioritization individual demand by building public opinion. In this context has framework of neoliberal policies can be questioned about the role of the constraints on the expenditure and quality of expenditures for poor segments of society through civil society organizations (Petras & Lopez; 2001: 101). Thus a positive situation can occur for growth by transferring resources to the right areas by public.

## **2.3. Financial, Economic, Social Purpose Balance**

There are two main objectives of the tax on the basis of fiscal policies. These objectives which are classified as financial and economic objectives have included social purpose as a third objective for justice in income distribution after years. The basic element that should be considered within fiscal purpose so it's required that income of tax much more than expenditure during the collection of tax. As a result, tax which is provides more income to public also contribute to growth at the same time. On the other hand, taxes which is increase savings by promoting investment and production on the economic purpose of the tax, remove economic instability and contribute positively to employment can positively affect to growth and encourage compliance of individuals (Paksoy & Bakan, 2014: 155).

## **2.4. Income Distribution Effect**

The difference in income per capita cause to different dimensions in economic growth. Therefore, improvements to income distribution with tax can increase to growth by realizing redistribution of resources.

As it known pre tax income ensure that production factors which are participating in the production process get a share from income. If the segments that have opportunity to acquire sufficient knowledge in terms of investment and production with post tax income lead resources to right areas, they can get opportunity for getting involved in higher income level next time (Perotti, 1993: 756).

## **2.5. Increasing Savings**

When examining to the role of savings on growth tax policies that changes the role of return to saving owners are very important.

"Partial Balance Analysis" is emphasized when analyzing the balance of the economy priorities the supply of savings plans rather than the relationship between capital intensity and tax reforms on growth rate (Summers, 1982: 4).

## 2.6. Direction of Resources

Tax payment causes a decrease for high income groups on luxury consumption and for low income groups on necessity goods. For this reason, the tax burden of the low income groups is higher than high income groups, so they feel subjective burden heavy (Çataloluk, 2008; 217). In developing economies, for solving this problem which is changed resource distribution against to working segment. Totaly indirect and direct percentage in tax revenue is very important. If tax burden is fairly distributed among income groups, tax compliance can be provided and growth can be affected positively.

## 2.7. Tax Provisions in Constitution and Law

It's necessary to follow tax reforms in other countries for setting a comprehensive strategy by changing taxation provisions in the constitution and laws.

International studies which are involving taxation provisions often say that running consumption and property tax increase to growth rather than income tax particularly corporate tax.

For countries which have insufficient capital aren't taxing to capital easy and progressively. So, governments have to balance between progressive and growth at the risk of inequality (www.ifs.org.uk, 2012: 162).

## 3. Problems and Suggestions in Tax Legislation and Practice

One of the growth dynamics is that society which is following to expenditures, revenues and has high tax awareness. In societies which have a low level of education, this role is undertaken by civil society organizations so that's very important for transparency.

Public authority must officiate such as has sufficient number of specialists, effective use of resources and technological tools, providing revenue and expenditure efficiency, providing clear, simple and intelligibility legislation in the taxation process.

## 4. Conclusion

There is an important relationship, between the direction of changes of corporate tax and growth. The tax increase brought by the last regulation in the corporation tax cause to affect negatively on capital. There is many reasons about this situation and it's also affected by global improvements.

In Turkey tax system has some policies against to a growth focused taxation. These are; heavy tax burden on workers, corporate tax which isn't encouraging financing through equity structure and VAT which is questioned about that whether it's fair to give privilege to some income groups. Besides efficiency of the stamp tax which has

been debated for years, increases the bureaucratic procedures is questioned. Public can emphasizing to environmental and energy taxes for being sensitive of foreign investment and capital rather than like fees and low rate taxes.

In Turkey should be created comprehensive strategies in tax policies for attracting investments to the country and providing to efficiency of resources. Tax gaps should be reduced to a minimum by following international studies on tax compliance.

**Key Words:** Economic Growth, Economic Development, Tax Policies, Tax Compliance,

**Jel Codes:** H20, H21, H26

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## Analysis of Tax Expenditures Contrary to Principle of Justice in Inheritance and Transfer Tax

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Özgür Mustafa Ömür<sup>2</sup>

### 1. Introduction

The tax has been the most important income source of the state since the 16th century when the science of finance started to be examined based on the scientific principles. It is important that tax incomes are always collected with minimum loss in order not to interrupt public services. However, besides providing the financing of the public services, the tax also has economic, social and political functions as a necessity of the interventionist state understanding. Tax expenditures in the financial literature are a means for realize these functions of taxes.

The purpose of this study is to explain the tax expenditures in the form of tax exemption, which is within the scope of inheritance, and transfer tax within the Turkish taxation system, different from the principle of taxable justice and negatively affect the share of this tax in total tax revenues and then calculate the cost to the state.

Thus in line with the results achieved, it would be possible to contribute to the feasibility of the tax justice principle and to increase the share of inheritance and transfer tax in total tax revenues by the assessment to be made to these tax exemptions.

In the first part of the study, the concept of tax expenditures and the function of providing justice in taxation of tax expenditures will be explained. The literature on the subject will also be. The second chapter first, shares of the inheritance and transfer tax in total tax revenues in Turkey will be investigated. The bonuses distributed from the chance games of the National Lottery Administration in the year 2017 will be calculated, which are all exempted the scope of this tax. Then, the amount of inheritance and transfer tax that the state abandons collecting by imposing an exception this year will be calculated.

The bonuses distributed by the games of chance (national lottery, “sayisalloto”, “super loto”, “on Numara”, “sanstopu”) connected to the National Lottery Administration in 2017 will be obtained from the weekly distributed bonus section from the national lottery official website. While total bonus amount is calculated, bonuses which are

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under the concealment limit (20 TL) will not be taken into consideration due to the impossibility of collection. After calculating the total amount of distributed premium, the result amount will be calculated by the rate of 20% that inheritance and transfer tax rate of premium won from the luck games and lotteries, and the tax revenue that the state will give up from collect, will be calculated. The amount found will reveal how much wealth tax is lost by looking at its share in inheritance and transfer tax revenues. Also practices in Turkey will be assessed as comparison with the practice in other countries.

## **2. Tax Expenditure Concept and Objective**

This concept was first examined by Stanley S. Surrey. It was later extensively studied by Stanley S. Surrey and Raul R. McDaniel (1985). Tax expenditure can generally be expressed as normal tax breaks in favor of a particular industry, activity or group (Burman, 2003: 614). There is debate on the concept of tax expenditure both at the theoretical level (Stiglitz & Boskin, 1977; Kraan, 2004) and in practice (OECD, 2010). Discussions are mostly about the definition of the overall standard tax structure. The tax expenditure is the tax that is abandoned in terms of the state. But there are purposes of including tax expenditure into tax laws. One of these aims is to provide justice in taxation. Among the techniques used to provide justice in taxation in the normative tax theory, there is the taking of the tax according to the power of payment (Birch, 1988: 1005).

## **3. Place of Inheritance and Transfer Tax Revenues in Total Tax Revenues**

Taxes on wealth are not as widespread and popular as taxes on income and expenditure. A significant proportion of tax revenues in developed or developing countries are generated from taxes on income and expenditure. Tax revenues on wealth are far behind those two tax categories (Chatalova & Evans, 2013: 434-435). Yet wealth is a function of the utility of individuals because it is a source of power or social status (Aaron & Munnell, 1992: 121). Some writers also argue that neither expenditure nor income welfare may be used as a demonstration but wealth taxes have a different role in measuring the prosperity of individuals (Mintz, 1991: 248).

In order to ensure tax justice, it is absolutely necessary to tax wealth as well as taxes on income and expenditures. A tax system can be complemented by the taxation of wealth elements. Wealth taxes are important in order to it have a social purpose by remove the wealth differences of the individuals living in the society rather than the financial and economic targets of the state (Özvd., 2014: 2).

Wealth taxes consist of taxes paid on the basis of having a certain amount of wealth (such as estate tax, motor vehicle tax) and taxes paid on the transfer of wealth to donations, gifts and inheritance, etc. The taxation of the transfer of wealth constituting the subject of this work is made under the name of inheritance and transfer tax in our country.

The place of inheritance and transfer taxation is very important in terms of ensuring justice in the distribution of income in society and distribution of the tax burden in a fair manner (Şafak & Yurtsever, 2015: 27). But in our country, the share of inheritance and transfer tax in total taxation is very low compared to other taxes. Table 1 shows the overall distribution of central government budget tax revenues for the period 2010 – 2017. As it is seen in Table 1, a significant part of the total tax revenues in our country constitute tax on expenditure and income. Taxes on wealth are far behind the other two tax types.

**Table 1. Central Government Budget Tax Revenues Realizations (2010-2017, Million TL)**

	2010	2011	2012	2013	2014	2015	2016	2017
<b>Taxes Revenues on Income</b>	61.317	75.800	85.511	92.749	106.207	119.144	139.575	165,304
<b>Taxes Revenues on Expenditure</b>	91.736	103.381	113.837	134.855	142.111	167.092	191.329	211.989
<b>Taxes Revenues on Wealth</b>	7.919	9.721	10.537	11.567	13.208	15.266	17.336	16.171
<b>Total Taxes Revenues</b>	210.560	253.809	278.781	326.169	352.515	407.819	459.002	536.048

Source: bumko.gov.tr and muhasebat.gov.tr, using the data in these addresses.

The inheritance and transfer tax revenues included in wealth taxes and the share of these incomes in total tax revenues are shown in Table 2. Accordingly, the income from inheritance and transfer tax in our country constitutes an average of 0.1% of the total tax revenues.

**Table 2. Share of Inheritance and Transfer Tax in Central Government Tax Revenues (2010-2017, Million TL)**

	2010	2011	2012	2013	2014	2015	2016	2017
<b>In heritance and Transfer Tax Revenues</b>	215	253	293	340	428	435	620	651
<b>Total Taxes Revenues</b>	210.560	253.809	278.781	326.169	352.515	407.819	459.002	536.048
<b>ITT / TTR</b>	% 0,12	% 0,1	% 0,1	% 0,1	% 0,12	% 0,11	% 0,13	% 0,13

Source: bumko.gov.tr, using the data in this address.

#### 4. The Tax Expenditures Contrary to the Justice Principle in the Taxation of Turkish Inheritance and Transfer Tax and Its Impact on Tax Revenues

In our country, the share of income from inheritance and transfer tax in total tax revenues is very low. This tax has a small share in the total tax revenues, and there is a share of tax expenditures. This section will include tax expenditures that reduce the share of inheritance and transfer tax in total tax revenues and also contravene the justice principle in taxation.

If we think that wealth is an important indicator of the power of payment, the share of wealth tax must be higher. Especially not paying the tax of the wealth obtained without labor, despite paying higher taxes than labor income. It is contrary to the principle of the tax payment power principle and the principle of justice which is the reason of application of this principle. Inheritance and transfer tax have some exceptions that are in conflict with the justice principle in taxation. These exceptions include; all of bonus won in the chance games organized by the national lottery administration, 4.656 TL of premiums won in contests and draws organized by real and legal persons and tax exemptions of TL 4.656 of gratuitous transfers interpersonal. In addition, in case of heritage shares, an exemption of 202,154 TL is applied for each child / grandchild including adoptions and 404,456 TL for spouses if there is no child / grandchild.

These exceptions are important because of the negative effect on inheritance and transfer tax revenues as they are contrary to the principle of justice in taxation because they are not aimed at any economic and social purpose. Table 3 shows the total amount of bonuses distributed by the national lottery administration in 2017. While the total amount of bonuses is calculated, premiums below 20 TL are not calculated for it was under the concealment limit due to the impossibility of collection.

**Table 3. Total Bonus Amount Distributed in Chance Games Organized by the National Lottery Administration\* (2017, Thousand TL)**

Chance Games Organized By the National Lottery Administration		"Sans Topu"	"On Numara"	"Super Loto"	National Lottery	Total
Total Bonuses Distributed in 2017	167.900	45.432	35.520	204.545	565.323	1 018.720

\*Paying off exclude

**Source:** millipiyango.gov.tr, using the data in this address

Apart from the games of chance organized by the national lottery administrators, fairly high prizes are distributed in the games of chance such as "iddaa", football pools and horse race which are very common in our country. In 2016, a bonus of 4,800 million TL

has been distributed from “iddaa” and “sportoto” games and 2,000 million TL from horse races (Uras, 2017).

#### 4. Conclusion

Tax expenditures are generally expenditures that the state has made to achieve economic and social goals. However, in our country, especially in inheritance and transfer tax, there are tax exemptions that do not serve economic and social purposes and contrary to the principle of justice in taxation. These exemptions also have a share in the fact that the share of inheritance and transfer tax revenues in total tax revenues is very low. These exceptions include; all of bonus won in the chance games organized by the national lottery administration, 4.656 TL of premiums won in contests and draws organized by real and legal persons and tax exemptions of TL 4.656 of gratuitous transfers interpersonal. In addition, in case of heritage shares, an exemption of 202,154 TL is applied for each child / grandchild including adoptions and 404,456 TL for spouses if there is no child / grandchild.

The above-mentioned exceptions weaken the provision of Article 73 of our Constitution, "Everyone is obliged to pay taxes according to their financial power to meet public expenditure". Income, wealth and expenditure of the people represent the financial power of them. The tax exclusion of all or a substantial part of the wealth that people have obtained without any labor is incompatible with the justice principle in the taxation.

Large quantities premiums are distributed from the games of chance organized by the national lottery administration that one of these exceptions. Games of chance such as National Lottery, “Super Loto”, “Sans Topu”, “On Numara” and “Sayisal Loto” that organized by the national lottery administration in 2017 was distributed 1,019 million TL and no tax was received. If this amount is applied to the rate of 20% inheritance and transfer tax applied to other games of chance, the total inheritance and transfer tax revenue of the state increases by 32%. Moreover, it can be said that this rate will increase much more if we add the exception of 4.656 TL which is quite high in the chance games like “iddaa”, “sportoto” and horse races which distributes a total of 6.800 million TL premiums in 2016 in our country.

Some of gratuitous transfers interpersonal exceptions from inheritance and transfer tax. The exemption shall be applied once on the total value by the same person and on the same date. However, in the event that the same person is transferred in favor of the same person on different dates, the exception is applied separately for each transfer. This allows more amounts to be an exception if the amount is transferred on different days rather than one day.

As a result, in order to increase the incomes of inheritance and transfer tax in our country and to provide justice principle in taxation, Premiums that distributed in the chance games organized by the national lottery administration, should be applied 20% rate of inheritance and transfer tax as the other chance of games. The amount of exemption applied for gratuitous transfers interpersonal and premiums earned from

competition and chance games organized by real and legal persons should be reduced. Finally, the exemption applied to heritage share should be lowered. These practices will increase the share of this tax in total tax revenues and will lead to a fairer development in taxation.

**Key Words:** Tax, Inheritance and Transfer Tax, Tax Expense, Tax Exemption,

**JEL Codes:** H21, H27, K34

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## Public Policies to Tackle Obesity Problem \*

Işıl Ayas<sup>1</sup>

Naci Tolga Saru <sup>2</sup>

### 1. Introduction

Obesity which has increased significantly is a serious health and economic problem in many countries. It is indicated that since obesity causes many form of illness obese people demand more health services. The share of the expenditure to cure obesity (direct costs)<sup>1</sup> in total health expenditure has also increased in many countries. Different policies are employed to tackle the obesity problem which burden governments' budgets more each year. In general government policies that have been applied to fight obesity can be group in three categories; (i) information and education policies, (ii) obesity taxes, (iii) banning and regulations. The main aim of the study is to analyze the different policies to fight obesity and to compare the effectiveness of obesity taxes relative to other policies.

### 2. Educating and Informing Policies

Asymmetrical information problem which exists in food markets is tried to tackle by educating and informing policies. Lack of information in food market may lead to distorted consumers' utilities. In this case, individuals cannot correctly calculate the cost and benefit of foods in short and long terms (Griffith & O'Connel, 2010, 483-484). Governments employ different policies such as calorie labelling, traffic light labelling and informing about health behaviors. Educating and informing policies are one of the cost effective polices which mainly aimed informing people about the consequences of unhealth lifestyle and eating. Calorie labelling policy indicate the necessity of giving calorie and nutrition information of all food and drinks in labels and restaurant menus. In traffic light labeling nutrient information is given in a universal way by using traffic lights. In order to help consumers, interpret the information, each of the values (fat, sugar, salt, etc.) is marked with one of the well-known traffic light colors, red, yellow or green, depending on whether the product contains high, medium or low levels of the respective nutrient (Saru ,2014: 127). Traffic light labelling is found to be more effective than traditional labelling in many studies (Yamamoto et al., 2005:397; Elbel et

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\* Cost of prevention, diagnosis and treatments.

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al 2009: 1110; Kiszko et al., 2014:1248; Sonenberg et al.,2013:253; Roberto et al, 2012:134).

### **3. Obesity Tax**

Obesity tax means a tax on high calorie products that causes obesity. Many countries have started to apply tax on sugared drinks, junk foods and sweets. There are three different types of obesity taxes; The Composite Commodity Fat Tax (CCFT), Nutrient Tax, Nutrition Index Fat Tax (NIFT) and (Clark & Dittrich, 2010, 289-393). In the CCFT a food group that causes obesity is selected as tax object such as ready meals or sugared drinks. According to Nutrient Tax, foods are taxed depending on fat content. It is effective to reduce fat consumption, but difficult to calculate tax compare to CCFT, because of the need of establishing the fat content for each food items. Nutrition Index Fat Tax (NIFT) applied depending on index which includes items that bear risk of obesity such as fat, sugar, salt etc. It is difficult to apply in practice since for each food group and index need to be calculated. Therefore, it has a very high compliance cost and is not applied in any country.

### **4. Restrictions and Regulations**

Governments can apply bans and regulations to prevent failures in food markets and to limit irrationalities. Regulations policies are especially effective for the prevention of child obesity. Banning the sale of sugared drinks in schools, increasing the sport facilities, banning advertisement of unhealthy foods and drinks are examples of these kind of policies (Finkelstein & Zukerman, 2008:124). Another regulation subject is the fast-food restaurants. Increasing number of fast-food restaurants and their closeness to schools increase the obesity rate significantly (Currie et al, 2010, 32; Dunn,2010:1149; Alviola et al,).

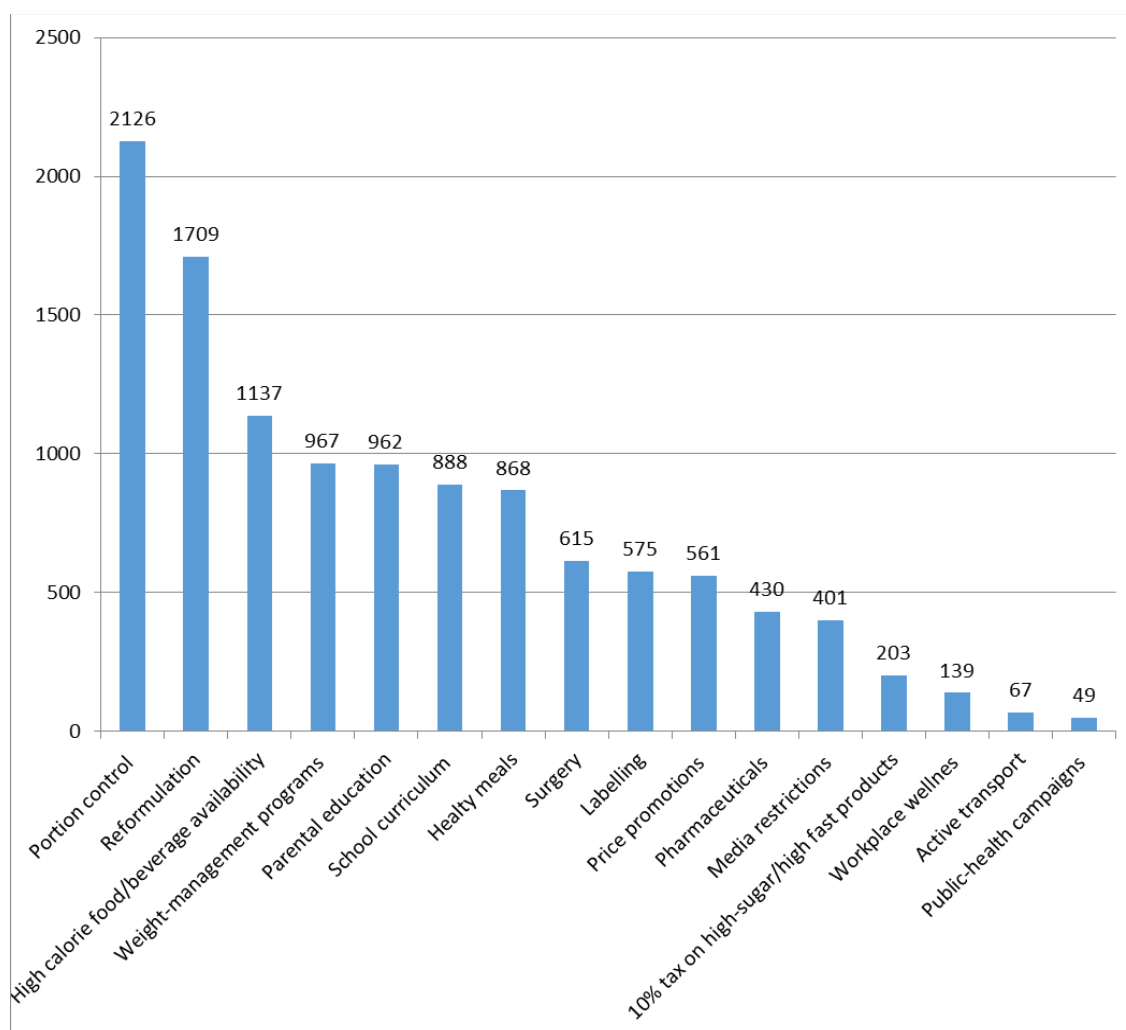
### **5. The Effectiveness of Obesity Taxes Compare to Other Policies**

The education and information can be provided by advertisement, public service announcements and public campaign. These programs explain the potential risk of obesity. People with the adequate information may take necessary steps to reduce risk of obesity for themselves (Seçilmiş, 2014:38-39). However, it was indicated that education and information policies are in general less effective than tax and regulations policies (Finkelstein & Zukerman, 2008:124).McKinsey Global Institute (2014) study found that the most cost-effective policies to prevent obesity in England were portion control, reformulation<sup>2</sup> and limiting the availability of high calorie food/beverage.

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<sup>2</sup> By reformulating drinks and foods to reduce fat and sugar contains.



**Graph 1. Saved Disability-Adjusted Life years (DALY)<sup>3</sup> in Thousands**

As it can be seen from Graph 1, 10 per cent tax on high sugar/high fat products are more effective than workplace wellness, active transports and public health campaigns, however it is the 13<sup>th</sup> out of 16 policies.

It was found that most effective policies are appeared in media much less than other policies such as obesity tax, obesity surgery and school curriculum (McKinsey Global Institute, 2014).

A study by Saruc (2014) found that perceived acceptability of obesity taxes was high amongst health professions, but comparison with other policies showed that education and information policies were the most acceptable and obesity taxes were the least.

Ayas (2016) study showed that both public and health professions indicated that most effective policies were education and information followed by advertisement regulations, banning of unhealthy foods in schools and work places, higher numbers of

<sup>3</sup> Sum of potential life span lost due to early death and efficient years lost due to disability.

physical activity facilities. Obesity taxes were found to be least effective. Health professional perceived calorie labelling more important than public.

## 6. Conclusion

Policies to tackle obesity can be categorized in three main groups; education and information policies, obesity taxes and restriction and regulation policies. Education and information policies includes the policies to increase health eating and physical activities. Calorie labelling is also one of the education and information policies. Traffic lights labelling is an effective way to reduce calorie consumption. Policies such as portion control, reformulation and limitation of high calorie food and beverages are very effective for Saved Disability-Adjusted Life years. Obesity taxes found to be 13<sup>th</sup> out of 16 policies in effectiveness. Empirical studies indicates that the effectiveness of obesity policies are in the followings orders; education and information, restriction and regulations and obesity taxes.

**Key Words:** Obesity Tax, Tackling Obesity, Public Policies

**JEL Codes:** H2, I1

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# Global Public Private Partnerships with Health Focus on Public Services Supply

Burcu Gediz Oral<sup>1</sup>

Tugba Arpazli Fazlilar<sup>2</sup>

## 1. Introduction

Over the past three decades, there has been a dramatic change in the sharing of responsibility between the state and the private sector in the public services supply in the world, and the participation of private organizations in public service delivery has increased. However, the literature lags behind the practical initiative in this area. Especially health policy is generally considered to be the responsibility of the state, but there are many actors who take an active role in the field of health policy. This study identifies the background and context of changing partnership in the field of international health and development (Besley & Ghatak, 2007). The purpose of this study is to address this gap in the literature about global health public private partnerships (PPPs). Such a contribution will in general lead to a combination of the concept of global public private partnerships (GPPPs) and the distinction between theory and practice in global health and public administration.

## 2. The PPPs Approach in the Health Sector

In theory, the market is insufficient in the allocation of goods with externality. Public economics textbooks focus mainly on the diversity of the Lindahl-Samuelson rule and pay little attention to the institutional structure of the provision of public goods. Depending on whether the externalities are positive or negative, it is said that market failures can be solved with state intervention with tools such as corrective taxes and subsidies. These should be provided by the state. Otherwise, when the service is left to the private sector, possible transaction costs such as the free-rider and the difficulty of measuring utility and cost of public services will not be prevented (Ghatak, 2005; Okma et. al., 2015).

On one hand, there are views defending that the service should be presented by the state with means such as deviation from Pareto optimal and the essential qualities of health care (Erturk Atabey, 2012; 22; Gediz Oral, 2016: 141; Stiglitz, 1994; 350). On the other side, first the effect of neoliberal policies in the aftermath of 1980, in order to respond to efficiency, productivity and quality demands, has increasingly widened the

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role of public resources, the search for alternative services for accessing advanced technology, and the role of PPPs (Gediz Oral, 2016: 187).

### **2.1. PPPs Concept**

The PPPs projects, which we can define as a legally binding contract between the public and the private sectors to share responsibility for the construction, management and operation of a public infrastructure project, also found strong support in international organizations (Amponsah & Gatete, 2014; 2; Gediz Oral, 2015: 187).

### **2.2. Global PPPs**

At one time, international health, UN agencies, bilateral organizations and some non-governmental organizations, but in the form of presentation, which is dominated by the public sector, has now become more closely involved in the pluralism of more actors and institutional sectors (Okma et. al., 2015). One of the most immediate and undoubtedly important areas of partnership is the form of organization called global public private partnerships (GPPPs), which go beyond national borders and bring together a number of different partners to achieve specific health objectives. There are many reasons why more organizations enter health partnership at both global and national levels. Globalization's changing ideologies and trends have emphasized the need for closer global governance for both the private and public sectors. At least part of the support for GPPPs can be thought of as the emergence of a desire to be part of the global regulatory decision-making process of the private sector. It is also necessary to acknowledge that the actions of a sector or organization are based on others and that searching for common ground can be productive and lead to "win-win" interactions in an increasingly interdependent world. This provided a strong justification for the creation of the GPPPs (Buse & Walt, 2000: 558).

## **3. GPPPs in the Health Sector**

Partnership between organizations in different sectors of the economy is not a new development, but it has become increasingly dominant in the public sector reform discourses. Partnerships between public and private institutions are considered as a promising way of creating new opportunities to benefit from financial, humanitarian and technological sources that would not be available if the monopoly remains. In particular, GPPPs are emerging as an attractive strategy to take advantage of the strengths of multiple sources to address health problems in low- and middle-income countries. The promise, potential and challenges associated with GPPPs have been demonstrated through examples of partnerships in global health, particularly addressed by public health, risk management and governance strategies (Buse & Harmer, 2004).

The change in ideas about the appropriate role of state and non-state actors has led to changes in the positions and activities of major stakeholders in the field of international health policy and changes in political institutions that have caused the voice of different interests. This change reflects the changing positions of health-focused organizations. All this change ultimately affects public policies (Okma at. al., 2015).

### **3.1. Constraints in GPPPs in the Health Sector**

Health is a complex result of a much broader range of factors than medical care alone. For this reason, it is difficult to load the improvement of health on a special activity or actor. Most importantly, health policy goals are more than just the development and improvement of health; it includes protection of family incomes, protection of universal access to health services, protection of patients and health care workers. Multi-factor causal relationships between such multiple public policy objectives, tools and policy efforts and health make it difficult to assess realistically the aims and outcomes of health-focused organizations. Pressure to use public resources efficiently and effectively under financial constraints and uncertainty limitations has created concerns about GPPPs, especially in developing countries, with their success stories. These concerns arise primarily from accountability, and it is difficult to ensure that possible corruption is prevented or not to be repeated (Okma at. al., 2015).

### **3.2. Evolution of GPPPs in the Health Sector**

The deeper consideration of existing GPPPs in the global health field and the examination of the various aspects of the theoretical frameworks in multiple disciplines will put light on the strengths and weaknesses of this approach. In particular, the investigation of GPPPs established to cope with global health problems seems to be an urgent problem. Because such case studies will not only improve the understanding of the GPPPs, but will also generally facilitate the resolution of health problems. Furthermore, the role of academic institutions in PPPs is seen as promising not only as facilitating continuous research in this regard, but also as a strategy for increasing intra-institutional accountability. As a result, the high scientific integrity standards that are expected to be approved and the consequences of not adhering to these standards in practice put academics on the mission of discovering and solving medical, administrative and ethical risks of global health (Buse & Walt, 2000).

## **4. Conclusion**

While GPPPs bring much needed resources to international health problems, they also create new concerns about this new organizational form. Our aim is to provide a conceptual framework for analysing the GPPPs in the health field and investigating the emerging problems. In this study, three topics were discussed: global health policy actors, global health priorities and tools for addressing identified health priorities. The shift of global health policy-making spheres from public spheres to spheres involving

the transnational profit-making sector has led to the fragmentation and verticalization of global health policy. Infectious diseases have gained importance as global health priorities, and wider issues of developing non-communicable diseases and health systems have been neglected. Approaches to overcoming health problems are increasingly influenced by trade and industry interests, with an emphasis on technological solutions.

With the global evolution of the world, closer cooperation, knowledge, expertise and financial resources need to be mobilized more efficiently to address many global health problems. The GPPPs emerge as an attractive strategy for addressing the health problems of low and middle income countries in order to take advantage of the strengths of different sources. In fact, in recent years, successful the GPPPs have witnessed a growing consensus that they have the power to influence positive social change that provides benefit to all partners.

**Key Words:** Public Service, Health Service, Public Private Partnerships, Global Public Private Partnerships, Public Economy

**Jel Code:** H40, I18, I13, L32, P35

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# Public Private Partnership in the United Kingdom

Eda Ünalın<sup>1</sup>

## 1. Introduction

Public Private Partnership Model is a model that began to be implemented in the early 1990s under the leadership of European countries. In 1992, the UK, the first practitioner of this model, accumulated significant experience over the course of nearly 25 years and in recent years has resorted to a number of reforms in practice due to the high costs and increased risks created by the model. For this reason, the United Kingdom example is very important in order to have a comprehensive discussion of the gains and losses of public private partnerships.

The purpose of this study is to discuss the positive and negative aspects of the model through the UK case, with a view to public utility. The study addresses the developmental stages of the public private partnership model in this framework and the results of its implementation together with the documents prepared and published by the relevant departments of the Government of the United Kingdom.

## 2. An Overview of the Public Private Partnership Model

The historical roots of the public private partnership model, which has been implemented in the United Kingdom since 1992, are based on the Margaret Thatcher era, which has successfully implemented neoliberal politics around the world since the 1980s. The neoliberal approach, which still maintains its influence and power today, has been one of the first areas of privatization of public resources and with other policies it has been aimed to further narrow the public sphere in favor of the market. However, the recent approach to the economic and political boundaries of privatizations has increased the need for a public private partnership model (Karahanoğulları, 2012: 99).

According to a report dated January 2018, published by the National Audit Office, more than 700 projects with £60 billion have come to the UK in the framework of the public private partnership and the cost of these projects reached £10.3 billion in 2016-17. By 2040, it is estimated that all costs will reach £ 199 billion (NAO, 2018: 4).

## 3. Private Finance Initiative with Positive and Negative Aspects<sup>2</sup>

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<sup>2</sup> In the United Kingdom, a public private partnership is called a public private initiative (PFI).

Among the arguments put forward regarding the positive aspects of the private financing initiative (PFI), the most important thing is that investment expenditures can be excluded from budget. In this regard, budget constraints and financial rules are easily overcome; there is no increase in public spending in the short term.

In cases where the public budget is not sufficient, capital resources are created through PFI; thus increasing institutional budget flexibility and expenditure capacity

In addition, the need for assets to be available throughout the contract provides benefits to service users in terms of high quality and long-term availability (NAO, 2018).

In recent years, the negative aspects of the model are much more prominent than the positive aspects of the model.

At the beginning of these problems, priority is given to emphasizing the cost and risks of long-term public-private partnership contracts.

Exclusion of investment expenditures leads to uncontrolled expenditures and sets the stage for a debt crisis that can occur in the long run. On the other hand, the 2017 report, prepared by The Office for Budget Responsibility, which deals with budgetary responsibility, also mentions that off balance sheet financing creates a financial illusion (OBR, 2017: 12).

The PFI is preferred if benefits exceed the costs. The measure of utility is the protection of value for money. However, the structural difficulties of measuring utility do not enable the benefit-cost analysis to be done correctly.

Finally, the preferences of private financing lead to very high profits of private financing investors; many of the big companies that are the project's executives are directing their profits to tax havens (Jubilee Debt Campaign, 2017: 4).

#### **4. Reform in the Private Finance Initiative: Private Finance 2**

There has been frequent criticism in the United Kingdom of 2008 that the private financing initiative in parliament is a costly, flexible and non-transparent model. As a result, the number of projects has decreased significantly. In 2011, the reform debates started in the model, and a year later Private Finance 2 (PF2) came into the spotlight.

The PF2 model has introduced regulations to increase capital and debt financing resources, to ensure transparency, to increase equity incomes obtained by investors, to accelerate the bidding process and reduce costs, and to increase flexibility in the presentation of public services.

#### **5. Practise Examples**

One of the most debated PFI projects in the UK is Cardeldale Royal Hospital, built in 1998-2001. The high cost of the public sector for this hospital has created a funding

crisis that has also jumped into the Huddersfield hospital, which later offered local health care. This process resulted in the closure of one of the hospitals' emergency department (Jubilee Debt Campaign, 2017: 10).

Another well-known example is the London Metro project. In 2007, as a result of the bankruptcy of Metronet, which won the tender, the state paid £ 1.7 billion to the company for the guarantee it gave. The cost to the taxpayer in this project is between £ 170 and £ 410 million (NAO 2009: 24).

In addition to the widely known examples, many projects that were promised by the company to close in the near future, with Carillion's bankruptcy, which is one of the UK's largest construction companies and the director of dozens of PFI, were postponed for further dates. When the public sector's guarantees given to the company are taken into account, it is possible to say that the concrete effects of the damages caused by the bankruptcy of such a large company will be seen better in the coming period, but the public resources are already at great risk.

## 6. Conclusion

In the United Kingdom, the model of PFI has often been criticized for its high costs and risk, taking into account these criticisms, the reform process under the name of PF2 went into effect; but no consideration has been given to the fact that, given the available examples, the benefit of exceeding the cost specified as the model's preference has not been achieved.

Recently, publicly, Meg Hillier, the Chair of the Public Accounts Committee, expressed concern after 25 years that the private sector could benefit from balancing the cost of borrowing. Hillier, while acknowledging that schools need to invest more in hospitals, also points out that if wrong contracts are made, they will be paid by the taxpayer. <https://www.theguardian.com/politics/2018/jan/18/taxpayers-to-foot-200bn-bill-for-pfi-contracts-audit-office>, accessed March 3, 2018).

Hillier's statements reflect concerns about the public-private partnership model in the UK public, similar expressions are frequently heard from different mouths.

As a result, when we evaluate from the perspective of public benefit, it is seen that private finance is put under big debt with much higher costs compared to public financing methods, and these debts are likely to create a burden on taxpayers in the long run. Therefore, implementation of the model should be abolished and public services should be provided through direct public investments that are less costly than private financing.

**Key Words:** Public Private Partnership, United Kingdom, Public Private Initiative

**Jel Codes:** H49, L32

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# **Analysis of the Factors Determining Impact of Revenue Administration Organizational Structure to Tax Compliance in Turkey and Recommendations**

**Özge Altınsoy<sup>1</sup>**

**Adnan Gerçek<sup>2</sup>**

## **1. Introduction**

In order to ensure that the taxation service is best presented to taxpayers, tax administrations have been restructured in various countries, and functional and taxpayer-focused structures have been established. Parallel to these developments, in 2005, the Revenue Administration Department was established in Turkey, and a functional-focused structure was introduced. Then in 2006, the Large Taxpayers' Tax Office was set up to bring taxpayer-focused structure. Finally in 2015, the "Single Tax Office" project was passed on as a pilot application in Eskişehir. Today, there are three different structures as Tax Office Directorates, Presidency of Single Tax Office, and Directorate of Tax Office affiliated to the Ministry of Finance in Turkey.

In this study, firstly restructuring and organizational aspects of the revenue administration will be discussed. Then tax compliance and factors determining tax compliance will be explained. Finally, according to the results of the surveys conducted, the views of the public accountant to the different structure of the revenue administrations in Turkey will be taken, and the factors determining the tax compliance will be identify.

## **2. Restructuring of Revenue Administration and Organization Structure of Revenue**

### **2.1. Restructuring of Revenue Administration**

At the end of the 20th century, revenue administrations have been abandoned according to the tax model, and functional and tax-focused organizations have been transitioned (Gerçek vd., 2006: 23-24).

The restructuring of the Turkish revenue administration was carried out in 2005 with the Law No. 5345 on the Organization and Duties of the Revenue Administration. Thus, according to the tax type in our country, the structure of the organization has been changed to the functional organization. Then in 2006, the Large Taxpayers Tax Office was established in Istanbul as a unit responsible for large enterprises in order to bring

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taxpayer focus to a certain level. In order to provide better service to taxpayers, increase taxpayer satisfaction and tax compliance, the “Single Tax Office” project was passed as a pilot application in Eskisehir in 2015.

## **2.2. Organizational Structures Adopted in Revenue Administration**

The organizational forms of revenue administrations can be grouped into four groups. These; organizations according to tax types, functional organizations, taxpayer-focused organizations and mixed organizations (Kahriman, 2016: 235).

There has been a rapid transition from the tax-based organization to the functional organization type. Then, the taxpayer-oriented approach towards the perfection of the taxpayers' services taking into account the different taxpayer groups on the structure of the functional organization gained importance in the revenue administrations.

## **3. Factors Determining Tax Compliance and Tax Compliance**

### **3.1. Tax Compliance Concept**

Tax compliance is to fulfill tax liabilities without having to force it (Saruç, 2015: 23). The simplest definition of tax compliance is the degree to which taxpayers comply with tax laws. However, if tax compliance is only provided under the threat of severe punishment and sanctions, the increase in taxes may not be permanent. That is why taxpayers are asked to voluntarily comply (James & Alley, 2004: 28-32). As a result of these developments in contemporary countries, the provision of voluntary compliance by taxpayers, the development of quality of service and the determination of taxpayer expectations have become duty responsibilities of revenue administrations.

### **3.2. Factors Determining Tax Compliance**

The factors that determine the tax compliance are classified in the literature under various perspectives and different headings. Factors that determine tax compliance in general; economic factors, political factors, moral factors, psychological factors, demographic factors and administrative factors. Administrative factors have been included in our work.

#### **3.2.2. Administrative Factors Determining Tax Compliance**

Administrative factors determining tax compliance; taxpayer services, justice, technology use, resistance to tax administration, the structure of revenue administration and corporate trust.

Taxpayers who receive quality and respectful services increase confidence in the revenue administration and are more in line with the tax system (Gerçek vd., 2015: 179). Moreover, if the taxpayers think that the income administration is fair to them during the application of the tax laws, the attitudes to the income administration will

be positively affected (Çetin Gerger vd., 2016: 52). The use of technology in income administration is increasing day by day in order to enable taxpayer's to fulfill their tax duties faster, easier and with less cost (GiB, 2016: 25, Çanakkale, 2016).

It is important that the taxpayer can be serviced at once to protect the trustworthiness of the institution. On the other hand, some taxpayers can resist the payment of tax and they can also look hostile to the income administration and its actions. The transition of income management to a functional and tax-focused organization and providing better services according to taxpayers' particular situation also improves tax compliance (Gerçek vd., 2015: 166).

## **4. Field Research**

### **4.1. Purpose and Method**

Operations related to the tax in Turkey is carried out through public accountants who their representative positions. In this study, Bursa, Eskişehir and Çanakkale provinces were taken as examples of different structures of revenue administrations. The aim of this study is to measure the way the public accountants of Bursa, Eskişehir and Çanakkale, which have different structures, look at the structure of the income administration. In addition, an area survey to assess the factors that determine the effect of this structure on tax compliance.

For this reason, the universe of the research was determined as financial consultants registered in the professional chambers of Bursa (4.840), Eskişehir (931) and Çanakkale (429). The main mass size is 6.200 people. According to this, the sample volume was calculated as 382 in the 5% error margin and 95% confidence interval. Because of the data quality objectives of factor analysis, 407 financial advisors were reached in the survey conducted in February 2018.

### **4.2. Analysis of Data**

The public accountants participating in the survey; majority of them are middle age group (31-50 age), %69 are male and %31 are female, most of them are married (%80), most of them are undergraduates (%82), most of them are independent public accountants and mainly have 21 years or more experience.

The results of the questionnaire were subjected to factor analysis. The Cronbach alpha coefficient was used to measure the reliability of the questionnaires applied to public accountants prior to factor analysis. The Cronbach alpha value for the question groups was 0.883. The fact that the data value is above 0.80 indicates that the scale used is highly reliable.

The Kaiser-Mayer-Olkin (KMO) test was applied to determine if the data set was suitable for factor analysis and the survey's KMO sampling adequacy measure was found to be 0.881. Bartlett's globality test applied to the data was significant. [ $\chi^2 = 4565,562$ ,  $df = 351$  ( $p = 0.000$ )]. These results indicate the applicability of factor analysis and the existence of a correlation between variables.

Since the value of "Communality" is below 0.45, the questions V16, V20, V21, V24, V32, V33, V38, and V39 have been deleted. Factors in the SPSS 22.0 program were thus obtained. As a result, it was found that the remaining 31 variables constituted 60.31% of the total and were collected under 6 factors, which were greater than the value of the eigenvalue 1.

#### **4.3. Evaluation and Suggestions of the Survey Results**

The overview of public accountants to the organizational structure of the revenue administration in Turkey and the factors that determine the effect on tax compliance are the total variance, respectively, 22.517%, 10.103%, 9.615%, 6.413%, 6.345% and 5.312% is illustrating. The factor loadings of the questions that explain the relevant factors vary between 0,561 and 0,889. The lowest communal value was found to be 0,467 and the anti-image value was found to be 0.528.

According to the analysis results, it is determined that the "Taxpayer Services" factor is the most important factor. The quality of the services provided by the revenue administration to the taxpayer and the satisfaction with these services are the main determinant of tax compliance. According to the survey, "Justice" and "Technology Use" are also important in terms of tax compliance.

Other factors that determine the tax compliance of public accountants in Turkey are "Resistance ", "Structure of Revenue Administration" and "Institutional Trust". However, the weight of these factors is lower than the others. This shows that the quality of the service offered to the taxpayer is more important than the structure of revenue administration.

#### **5. Conclusion**

The structuring of the revenue administration in Turkey is not completed. There are three different organizational structures. In the 28 provinces there are tax offices in the Turkish Revenue Administration. In the province of Eskişehir there is a Single Tax Office. In the other 52 provinces, there are directorates of tax office affiliated to the Ministry of Finance. To measure the factors determining the impact of organizational structure of the revenue administration to tax compliance and to analyze Bursa, Eskişehir, Canakkale province survey of 407 public accountants were applied.

Due to public accountants there are 6 factors that determine the revenue administration structure and their effect to tax compliance. The analysis results show that "Taxpayer Services" is the most important factor. In addition, revenue administration's "justice" and "technology use" also determine the tax compliance of public accountants in Turkey. The expectation of the public accountants regarding the structure of the revenue administrations is that they are structured according to the taxpayer groups and sectors and thus they get better service.



**Key Words:** tax administration, the structure of tax administration, tax compliance, taxpayer's behavior, taxpayers services

**JEL Codes:** H21, K34, H83, H11

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## **An Analysis of Short and Long Term Debt Changes of Metropolitan Municipalities Based on Balance-Sheets (The Period of 2006-2015)**

Halil Serbes<sup>1</sup>

Özhan Çetinkaya<sup>2</sup>

### **1. Introduction**

It appears that the metropolitan municipalities resort to borrowing within the extraordinary revenues in order to be able to sustain their services in an inadequate manner to meet the expenses of their ordinary income. Metropolitan municipalities do not owe only to public administrations and institutions located in the national and international markets in short or long term. Besides, the debts of the metropolitan municipalities include consignations, debts to be budgeted, taxes to be paid and social security cuts. In fact, the public does not take much place in the agenda; however, it is important that these accounts, which have increased over the years, are analyzed in detail through balance-sheets. Indeed, the purpose of the study is to examine other debts and liabilities that are in addition to short and long term internal and external fiscal debts of the metropolitan municipalities. Accordingly, the balance-sheet datas covering the years 2006-2015 of the General Directorate of Public Accounts of the metropolitan municipalities are used. In the scope of the study, it is firstly dealt with the increasing importance of fiscal reporting with the transition to accrual basis. Then, the borrowing accounts that are included in the balance-sheets are introduced and their functions are explained. Finally, the data contained in the balance-sheets are analyzed and the suggestions are given in the direction of the results.

### **2. Transition to Accrual and Increasing Importance of Fiscal Reporting**

State accounting is an information system that encompasses the recording, classification, summarization, interpretation and reporting of all monetary and fiscal activities, assets and liabilities of the government (Öz, 2008: 4). In state accounting, accounting entries are kept in two forms, cash-based and accrual-based. The cash basis foresees the recognition of revenues when incurred in cash or deduction and when the expenses are paid in cash and payment on account (General Management Accounting Regulation, Article 4). Fiscal transactions such as the state property, accrued revenues and expenses, liabilities and debts, available parts of appropriations and deferred payments cannot be recorded in accordance with the scope of the cash-based system

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(DPT, 2000: 70). In order to overcome these deficiencies and to produce clearer and more transparent fiscal statements, the accrual-based system has been introduced.

The accrual basis is sufficient to account for the creation of an economic value, the transformation into another, the subject of exchange, transaction, or the disappearance (General Management Accounting Regulation, Article 4). The accrual-based system has made it possible to prepare fiscal reports such as a balance-sheet, cash flow statement and activity reports that contribute to the transparency and accountability principles and that users can clearly understand (DPT, 2000: 78-79, Çetinkaya & Yıldırım, 2006: 27, Karaarslan, 2002: 13). In accordance with the no. 5018 Public Fiscal Management and Control Law Article 49 determining the new government framework for the fiscal management in Turkey underlines that public accounts, "the revenues, expenses and assets of public administration and the fiscal results that generates and equity increase or decrease which causes it with every transaction guarantees and obligations shall be recorded in accounts in a prescribed order and kept by the management and supervisory authorities in order to provide necessary information to the public (Tümer & Demirbaş, 2017: 71-72). It is stressed that the accrual-based accounting was passed with this.

### **3. Introduction and Functioning of Borrowing Accounts of Metropolitan Municipality**

Metropolitan municipal borrowings can be monitored from the balance-sheets listed in the fiscal tables in the General Management Accounting Regulation. According to their expiries, the borrowings are shown in short and long term foreign resources and their sub accounts. A foreign source refers to existing liabilities and responsibilities of the administration that are expected to result in a reduction in the economic resources and values resulting from and incurred from past transactions and events (General Management Accounting Regulation, Article 4). Within the main account group of short-term liabilities; short-term domestic fiscal debts, short-term external fiscal debts, activity debts, consignment foreign resources, advances received, year-end construction and repair revenues, other liabilities to be paid, debt and expense accruals, future revenue and expense accruals and other short-term external resources are listed as sub-account groups. In the main account group of long-term liabilities includes sub-account groups such as long-term domestic fiscal debts, long-term external fiscal debts, activity debts, other debts, advances received, debt and expense accruals, future years revenue and expense accruals and other long-term external resources (General Management Accounting Regulation, Article 10). These accounts can be seen separately from Table 1.

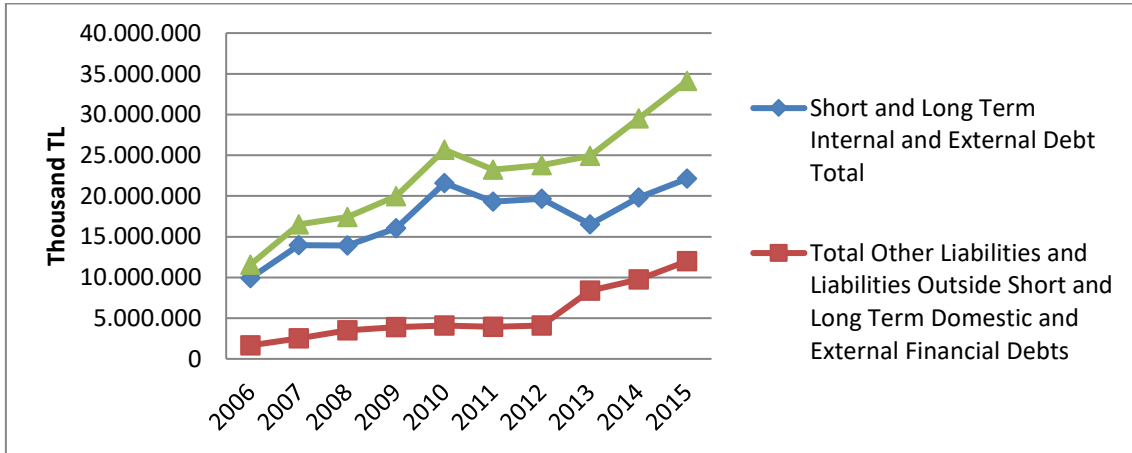
**Table 1. The Account Plan for Short and Long Term Liabilities**

3 SHORT-TERM FOREIGN REVENUES	4 LONG-TERM FOREIGN REVENUES
30 Short-Term Domestic Fiscal Debts	40 Long-Term Domestic Fiscal Debts
31 Short-Term External Fiscal Debts	41 Long-Term External Fiscal Debts
32 Activity Debts	43 Other Debts
33 Consignation Foreign Resources	44 Advances Received
36 Other Liabilities To Be Paid	47 Debt And Expense Accruals
37 Debt And Expense Accruals	48 Future Revenue And Expense Accruals
38 Future Revenue And Expense Accruals	49 Other Long-Term External Resources
39 Other Short-Term External Resources	

**Reference:** General Directorate of Public Accounts, Metropolitan Municipalities 2015 Balance-Sheet.

#### 4. Analysis of Borrowing Amounts of Metropolitan Municipalities: The Period of 2006-2015

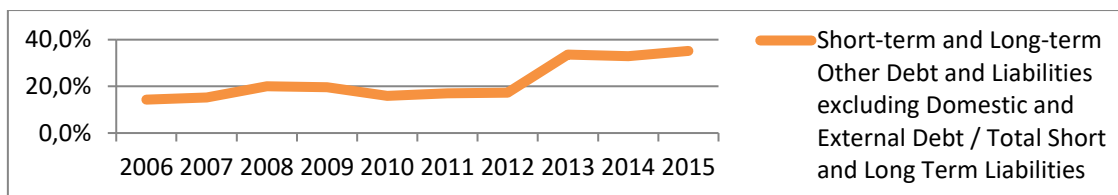
In order to analyze the borrowing amounts of the metropolitan municipalities, three separate graphs were drawn in line with the balance-sheet data obtained from the General Directorate of Public Accounts.

**Graph 1. Development of Short and Long-Term Liabilities (Thousand TL)**

**Reference:** General Directorate of Public Accounts, Balance-Sheet Data (2006-2015).

In line with the data in Graph 1, it is seen that the short and long term foreign resources of the metropolitan municipalities have increased over the years. The similar increase occurred in other liabilities and debts other than short and long term internal and external fiscal debts, taxes, social security cuts, consignations.

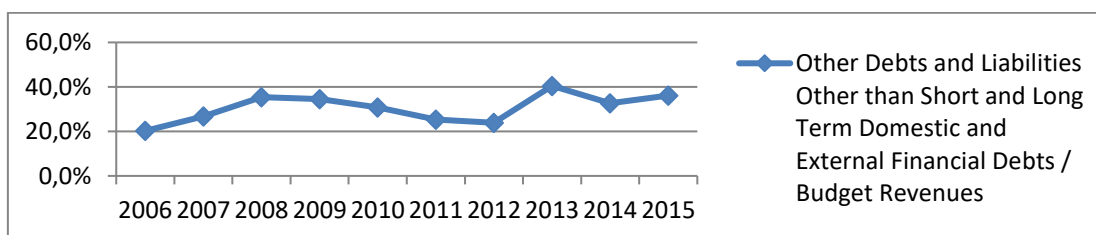
**Graph 2. The Ratio of Total Other Liabilities and Liabilities Other than Short and Long Term Internal and External Debt to the Total of Short and Long Term Liabilities**



**Reference:** General Directorate of Public Accounts, Balance-Sheet Data (2006-2015).

As can be seen from Graph 2, the ratios of the amounts in the total debts of the metropolitan municipalities such as taxes, social security cuts, consignations, debts to be budgeted have shown a significant increase over the years.

**Graph 3. Ratio of Other Debts and Liabilities Other than Short and Long Term Domestic and External Financial Debts to Budget Revenues**



**Reference:** General Directorate of Public Accounts, Balance-Sheet Data (2006-2015).

The data in Chart 3 shows that, in addition to the short and long term internal and external fiscal debts of the metropolitan municipalities, other debts have also risen against the budget revenues over the years.

#### 4. Conclusion

The short and long term foreign resources of the metropolitan municipalities were seen to increase both domestic and external financial liabilities and other debts and liabilities from 2006 to 2015. Since increased debt may endanger the sustainability of the fiscal structures of the municipalities, efforts should be made to increase the municipal revenues and fiscal autonomy of the municipalities. In addition, taking measures to ensure expenditure efficiency in municipalities is important to have a healthy fiscal structure in the coming years and to reduce the burden on the Treasury.

**Key Words:** Metropolitan Municipalities, Fiscal Accounts, Balance-Sheet, Foreign Resources.

**JEL Codes:** H74, M41, R51.

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## Evaluation of Intelligent Transportation Systems Applied in Various Countries in the Context of Externality\*

Mehmet Emin Kenanoğlu<sup>1</sup>

Murat Aydın<sup>2</sup>

### 1. Introduction

The increase in population and vehicle ownership, the rise in the travel trends, and the concentration in demand for passenger and freight transportation led to an increase in the importance of transportation as the day goes on. Increased importance of transportation cause demand boom for a faster, safer, cheaper, greener, sustainable transportation system. Sustainable transportation brings efficiency and effectiveness to the forefront, therefore, a good number of positive externalities such as reducing energy consumption, increasing competition, job loss prevention, efficient and effective use of land, prevention of accidents avoiding many diseases by reducing stress, come to light. In order to overcome many negative externalities in transportation or to bring out positive externalities, it is necessary to ensure the compatibility of transportation infrastructure, and information and communication technologies to develop security, mobility, economic efficiency and environmental sustainability. The purpose of this study was to examine the positive and negative externalities of Intelligent Transportation Systems (ITS) in the context of literature review.

### 2. Intelligent Transportation Systems

ITS refers to the system of large-scale technologies, such as electronics, computing and wireless networks, aimed at safety, efficiency and relief for the entire transportation network (Shaheen and Finson, 2013:2). The service areas for ITS are shown in Table 1.

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**Table 1: ITS Service Domains and Service Groups**

<b>Traveller Information</b>	<ul style="list-style-type: none"> <li>• Pre-trip Information</li> <li>• On-trip Information</li> <li>• Travel services information</li> <li>• Route Guidance &amp; navigation-Pre trip</li> <li>• Route guidance &amp; navigation-On trip</li> <li>• Trip planning support</li> </ul>
<b>Traffic management and operations</b>	<ul style="list-style-type: none"> <li>• Traffic control</li> <li>• Transport-related incident management</li> <li>• Demand management</li> <li>• Transport infrastructure maintenance management</li> </ul>
<b>Vehicle</b>	<ul style="list-style-type: none"> <li>• Transport-related vision enhancement</li> <li>• Automated vehicle operation</li> <li>• Collision avoidance</li> <li>• Safety readiness</li> <li>• Pre-crash restraint deployment</li> </ul>
<b>Freight transport</b>	<ul style="list-style-type: none"> <li>• Commercial vehicle pre-clearance</li> <li>• Commercial vehicle administrative processes</li> <li>• Automated roadside safety inspection</li> <li>• Commercial vehicle on-board safety monitoring</li> <li>• Freight transport fleet management</li> <li>• Intermodal information management</li> <li>• Management and control of intermodal centres</li> <li>• Management of dangerous freight</li> </ul>
<b>Public transport</b>	<ul style="list-style-type: none"> <li>• Public transport management</li> <li>• Demand responsive and shared public transport</li> </ul>
<b>Emergency</b>	<ul style="list-style-type: none"> <li>• Transport related emergency notification and personal security</li> <li>• Emergency vehicle management</li> <li>• Hazardous materials &amp; incident notification</li> </ul>
<b>Transport-related electronic payment</b>	<ul style="list-style-type: none"> <li>• Transport-related electronic financial transactions</li> <li>• Integration of transport related electronic payment services</li> </ul>
<b>Road transport-related personal safety</b>	<ul style="list-style-type: none"> <li>• Public travel security</li> <li>• Safety enhancements for vulnerable road users</li> <li>• Safety enhancements for disabled road users</li> <li>• Intelligent junctions and Links</li> </ul>
<b>Weather and environmental conditions monitoring</b>	<ul style="list-style-type: none"> <li>• Weather monitoring</li> <li>• Environmental conditions monitoring</li> </ul>
<b>Disaster response management and coordination</b>	<ul style="list-style-type: none"> <li>• Disaster data management</li> <li>• Disaster response management</li> <li>• Coordination with emergency agencies</li> </ul>
<b>National security</b>	<ul style="list-style-type: none"> <li>• Monitoring and control of suspicious vehicles</li> <li>• Utility or pipeline monitoring</li> </ul>

Source: (WB 2004: 13).



### 3. Externality

Externality can be described as the consequence of an economic decision to be taken in a market operation which may result with a positive or negative influence on other individuals other than the buyer and seller (Conway, 2015: 107). The concept of externalities is classified in different forms in the article. The groups are named as positive-negative, production-consumption, marginal-inframarginal and monetary and technological externalities. In this paper, the subject will be discussed mainly in the context of positive and negative externalities. Because the issue of externality focuses on positive-negative externalities, in general (Rosen, 2005: 103).

### 4. Externalities that Intelligent Transportation Systems Emerge

Externalities to be provided for third-parties are important as well as the benefits (profit, cost) that the manufacturer or consumer will provide for it, as a result of the widespread use of ITS. Because the reduction of the traffic density will give the opportunities such as time and fuel savings, particularly for the drivers or a company. It will also provide third-part benefits that can not be priced. These benefits will also reduce noise, image and environmental pollution. It could also provide benefits to the country's economy by contributing to foreign trade and current account balance resulting from reducing fuel consumption, preventing the waste of resources or reducing the cost of cleaning polluted environment. Because sustainable mobility is a precondition for the both economic growth and welfare of a country and as well as well-being of its people (ITS Deutschland, 2017:3). The benefits of ITS applications implemented in Japan are shown in Table 2.

**Table 2: Calculation of Annual Benefits (per Signal or Device) in Japan**

<b>Categorical Name</b>	<b>Smooth Flow Benefits (1000 JPY)</b>	<b>Reduced Accident Benefits</b>
Traffic control center	35.406	651
Development of area control	55.312	1.481
Development of link actuated system control	48.788	1.234
Development of semiactuated control	4.684	5.508
Development of traffic actuated control for righthand turns	13.738	7.280
High-speed driving deterrence device	-	7.102
Development of sensor actuated control for the elderly and the disabled	-	6.427

**Source:** (JTMTA, 2017: 63).

In a study in Australia (for 2015), It is stated that traffic related time loss cost is 6 billion AUD, job loss cost is 8 billion AUD, extra vehicle operation cost is 1.5 billion AUD and as an addition, air pollution cost is 1 billion AUD. It is predicted that 16.5 AUD as a total cost will come to light, the cost that is predicted for 2030 is 30 billion AUD (AGDIRD, 2015: 1; AIP, 2016: 6). Positive externalities emerged by ITS are quite high. However, another point that needs to be discussed here is the fact that ITS may have negative externalities as well as positive externalities. Because, the increase in the use of technology can bring both positive and negative externalities.

- As everything becomes technological, problems can be encountered at the point of personal privacy. This situation can affect either the person himself/herself or his/her family or other people.
- The security vulnerabilities that may arise from the technology may increase with intensive use. The availability of security vulnerabilities in intelligent technology products and systems at all times (Bayless et al., 2014: 7) may also lead to many negative externals, such as accidents and theft associated with them. Another negative externality might be that all personal and social information obtained from ITS applications is captured in the virtual environment by abusive people.
- With the widespread use of ITS, automation of many processes may cause personal skills to weaken or disappear, depending on the continuous use of personal skills in certain areas.
- The widespread use of technology use can weaken personal relationships by reducing the desire for communication among people (mobile applications, electronic panels or automation systems).
- The widespread use of ITS applications will increase the number of health problems that technological devices such as cellular phone transmission mast are exposed to.
- If the recycling of ITS itself can not be achieved, the environment will turn into a technological garbage.
- ITS will also cause unemployment because it will reduce the intensive use of work in many areas. Unemployment, besides affecting the person, can also bring social problems by affecting the family, the environment and the whole society.

## 5. Conclusion

These positive and negative externalities that occur outside of the producers and consumers need to be considered wholly for ITS. In the context of this study, it was observed that especially positive externalities were higher. The fact that ITS is used extensively in many countries, including EU as well, confirms this fact. However, ITS is not only focused on these positive outputs. Therefore, negative outputs are not ignored, but the result is that the production of solutions will serve the ITS development.

**Key Words:** European Union, Intelligent Transportation Systems, Externality.

**JEL Codes:** H20, I31.

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## The Main Obstacle for the United States of Europe Goal: Delegating the Power of Taxation

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Murat Uzun<sup>2</sup>

### 1. Introduction

It is certain that the European Union, which shows an advanced integration internationally today, has a political roadmap in addition to the goals of living together in peace and economic union. According to some, there is nothing further than an economic union for the European Union which is regarded as a chainring connected to each other with a silk thread. On the other hand, according to some, it seems inevitable that the member states of the European Union will come together to form the United States of Europe. It should not be forgotten that although there are many members with historical affiliations, each one has an independent political organization. In this study, the aim is to discuss the issue of delegating “the power of taxation”, which is possessed to “be able to be a state” in relation with the United States of Europe goal. In this context, the political mechanisms and priorities necessary “to become a united state” will be briefly examined.

### 2. The Capability to be a State

A State is a political organization that created with the willingness of humankind to live together along with the people who want to govern them. This organization has essential elements for "sovereignty"; “army” (military force), “flag”, “owned land”, “administrative organization and center” (administration and capital), “the power of coinage”, “the power of taxation” (financial organization power) and “foundation contract” (constitutional text). These are indispensable conditions as prerequisites of being a state. There is one more important subject here; the said elements must exist only “on their own” to be in the “sovereign” structure.

The European Union is an organization that defines the international societal creation of the economic, financial and political spheres based on state. But is the capability of being a “state” possible for the “Union”? The study attempted to examine the validity of the elements of being a state in the process of development of the European Union and the end of the development of the European Union. Firstly, the approaches of some member states to the idea of the United States of Europe will be given, then the

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development of the elements mentioned above in the European Union from the point of being the United States of Europe will be elaborated.

### **3. Approaches to the Idea of the United States of Europe**

Even though the expressions of the United States of Europe are used, it is not possible to say that the member states of the European Union today formally express their aims of being "United States" as a future-oriented wish. Because, at present in the European Union, priority is given to monetary union and continuation of "ensuring unity in financial law". Because, at present, in the European Union, priority is given to monetary union and continuation of "ensuring unity in financial law". In this issue, as Simon Heffer points out in his article in the Daily Mail newspaper (Heffer, 2011), there is no doubt that in monetary union; "one economy policy, one taxation system, one social security system, one public debt system, one economy and one minister of finance" is an important issue to overcome. Shortly, although states can strengthen their economic benefits through trade and various agreements, they do not want to lose the power of the political organization that has created these expediencies.

It is still difficult to predict how far the European Union will record on the road to political integration. It seems very difficult to establish a "United States of Europe" that federalists want. Because no state at this point would like to put its political union in a province position for the United States where they cannot fully see the consequences of their political union.

### **4. The Sufficiency of the Present Elements for the European Union to be the United States of Europe**

The European Union, the twenty-eight European States with their expressions of member states, refers to "a one economic and political partnership"(Basic Information on the European Union). It is possible to say that the European Union has an army concerning being a state. In other words, it can be said that the aim of the United States of Europe is to provide an agreement on the concept of an army. Besides, another factor that the European Union has in the way of being a United State is the "flag". There is a twelve-star "European emblem" expressing integrity on the blue ground as the European Union has agreed. This emblem is used in the form of "flag" as a sign of the symbol of a state organization and union (The European Symbols).

The European Union has an institutional structure that can serve the benefits of the member states (EU Institutions and Other Bodies). These institutions are European Parliament, European Commission, European Union Council, European Union Summit, European Court of Justice, European Court of Auditors, European Central Bank and other institutions. Among the three main institutions of the European Union, which are the European Union Commission, European Union Council of Ministers of the European Union and European Parliament, the majority of the official organs of the first two institutions are located in Brussels. When these are taken into consideration, Brussels is expressed as the capital of the European Union. It is possible to say that a

joint city is used as a center and the capital is physically existing in the present conditions concerning the capability to be the United State.

The European Union seems to have transcended the political union of the "one currency" to become the United States of Europe. But, it can be said that the most important obstacle for the European Union on the way to be a "United State" is the delegation of "the power of taxation" and in this context signing the "foundation contract" (constitutional text). That's because the European Union is comprised of states countries which have the power of taxation in their states and do not want to leave their constitutional power which acts independently even though they have excellent integration characteristics and shows policies related to them. The most important thing for the member states is keeping the "power of taxation ", which symbolizes sovereignty. Today, the states take their "power of taxation" from the constitutions, and most of the member states don't want to meet on a joint constitutional text which doesn't include this power which is accepted as a sign of power. In other words, none of the states wants to give up its "power of taxation", which is a sign of being a state. This is the major obstacle to the European Union's goal of becoming the "United States of Europe".

## 5. Conclusion

It appears that the economic and financial policies of the European Union have many commonalities in the political climate. But it is obvious that the European Union's future steps to become "the United States of Europe" will be set back by the problems of the "delegation of the power of taxation" and signing the "foundation contract" (constitutional text).

Although the European Union takes a number of steps regarding the development of its integration in terms of its benefits, if it is considered that tax collection is among the most important powers for the State, it is possible to interpret the idea of the United States as "the European Union trying to take over the basic sovereignty right of the member states" in this direction (Çomaklı, 2006).

In fact, as Reid has stated, the United States of Europe can be taken as the conceptual definition of more people, more wealth and more trade than a political union and a military power like United States of America (Reid, 2004:1). However, the fact that the European Union, which aims to be a "United States", fails to reach a consensus in the constitutional text, is inevitably an obstructive target.

If it should be expressed, being a "United States of Europe" will only stay as a dream unless the member states accept delegating "the power of taxation" which is a power indicator of being a sovereign state.

**Key Words:** Taxation, European Union, State, Constitution, Sovereignty

**JEL Codes:** H-20, H-70, K-34

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## **Cryptocurrencies Low Risk for Money Laundering High Risk for Cybercrime: Desperation of Tax Administration or New Future of Taxation**

**Burcin Bozdoganoglu<sup>1</sup>**

### **1. Introduction**

In an increasingly globalized world, the emergence of decentralized cryptocurrency systems has allowed individuals to quickly and easily transfer value to each other without the need for a reliable third-party agent. Although this is beneficial for many individuals, also society has a wide range of difficulties, especially in terms of governments. Because cryptocurrencies such as Bitcoin generally operate anonymously, governments have significant gaps in the regulation of these currencies, and in the monitoring transfers made with them. This may provide the basis for criminal activity by facilitating the sale of online illegal drugs and weapons, as in the case of Silk Road. Even more important, this situation facilitates the activities of money laundering, tax evasion, and terrorism financing, which are included in the scope of financial crime by international organizations.

However, recently, cryptocurrencies have developed like a stock market, and individuals have begun to make deposits without researching the working system to earn money from these currencies. Cryptocurrencies can be obtained through intermediary institutions. As a result of cyber-attacks to internet sites that provide cryptocurrency, some users have reported that some of their virtual money has been stolen. Due to the anonymous nature of the cryptocurrencies, both the delivery of such money to the owners and the difficulty of providing evidence, this once again showed how convenient these currencies are for tax evasion and fraud (Marian, 2013:39).

In this study, firstly the characteristics of the cryptocurrencies will be examined and the classification of these currencies whose numbers are increasing in day by day will be done.

The definition of the virtual currency concept, which is an important point in terms of taxation, will be done and the currency characteristics of the cryptocurrencies will be discussed in terms of legal and economic aspects. In addition, the Blockchain system, which is the working mechanism of Bitcoin, the first virtual currency, and inspires other virtual currencies, will be explained. Country examples of the Blockchain system on

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governmental operations such as public administration and taxation will be briefly mentioned.

In the third part of the study, money laundering, cybercrime, terrorism financing and fraud, which are the crime risks brought by the cryptocurrencies, will be examined.

In the fourth part, the problems experienced by tax administrators in relation to the use of cryptocurrencies will be addressed and especially the difficulties of tax regulations because of anonymity features of these currencies will be analysed. In addition, the use of cryptocurrencies as a ransom by cybercriminals, which has become widespread and will be explained in detail in the study, and also is used as a basic instrument in the use of counterfeit identities, drugs, weapon purchases, and money laundering activities in alternative Internet browsers known as “Darknet” and by this way it has supported the formation of a phenomenon known as the digital informal economy.

In the last part of the work, the activities of the cryptocurrencies and the solution proposals which are presented by international organizations about their taxation will be featured. In addition, how virtual currencies are defined and regulations about taxation in various countries will be explained.

## **2. Main Features of Cryptocurrencies**

In this section, anonymity / pseudonymity concepts, which are listed as basic features of cryptocurrencies, rapid international transaction settlement and decentralization and contained network will be presented.

### **2.1. Anonymity/Pseudonymity**

Privacy has always been the main goal of crypto-currency developers. However, the cryptocurrencies are not entirely anonymous in a uniform structure; instead, there are different degrees of anonymity. The most known cryptocurrency, Bitcoin, has pseudonymity feature. It means; users are identifiable throughout the network by their alphanumeric keys. Also, users can choose to use a single public key for all transactions, but they may also create a new public key for each individual transaction they undertake.

Most of the existing cryptocurrency is “pseudonymous”. While cryptocurrency transactions are publicly recorded, users are known only by their virtual currency “addresses,” which cannot be traced back to users’ real-world identity (Carlise,2017:9).

### **2.2. Rapid International Transaction Settlement**

Thanks to the Bitcoin system first created by Sakoshi Nakamoto; the technology behind the world's recognized cryptocurrencies allows users to transfer bitcoins (or other cryptocurrencies) quickly compared to the rest of the world. This situation

created the expectation that the new payment methods provided by the cryptocurrencies could be made available to the financial system. It can be argued that the blockchain mechanism behind virtual currencies and its underlying distributed ledger technology can provide low cost micropayments (or small online transactions) and provide quick and unmediated delivery of funds to underdeveloped countries. However, this ability to transact quickly poses risks (Carlise,2017;10).

This is a very good basis for transferring money by partitioning it out of the basic methods of money laundering. Increasingly, money laundering is occurring on an industrial scale.

### **2.3. Decentralization**

Taking into account the specific risks that determine the state of decentralized cryptocurrencies is important in determining the regulations to be addressed in the last section.

Miners, stock exchanges, wallet providers, payment processors, ATM providers and other actors play a vital role in the functioning of the network in which cryptocurrencies operate. However, it is still working on a central network and open source software that does not have a central manager. Whom to hold accountable in cryptocurrency networks is not always clear(Ruppert, 2017:4).

## **3. Types of Cryptocurrencies and Blockchain Mechanism**

### **3.1. Classification of Cryptocurrencies**

In this section cryptocurrencies are classified and the differences of altcoins, coins and tokens will be explained. There will also be some statistical information about the rapidly growing cryptocurrency market (Gupta et.al, 2017: 11).

### **3.2. An Important Point for Taxation: Definition of Cyptocurrencies from Different Sides**

Under this heading, the features expected from the traditional "currency" will be listed firstly. In this framework, the ability of virtual currencies to be "currency" or "asset" will be discussed in the legal and economic context (Nica et.al, 2017). In addition, a description of the virtual currency made by the European Central Bank will be included (ECB,2015: 25).

### **3.3. What's Blockchain? Is it Useful for Governmental Transactions such as Taxation?**

In this section, the working principle of the Blockchain mechanism that emerged with Bitcoin, the first cryptocurrency, will be explained as the basis (RBC, 2017:15).

Distributed ledger technology behind the blockchain mechanism and the possibility of using this technology in financial transactions, money transfers, public administration,

e-vote and tax administration will be examined. It will also refer to examples of countries that use this mechanism for taxation and public administration transactions (WU Global Policy, 2017: 13).

#### **4. Financial Crime Risk's Created by Cryptocurrencies**

Cryptocurrencies can be exploited as an instrument for money laundering, terrorism financing, tax evasion, cybercrime and other forms of illegal activity. In this section, the risk of financial crime created by cryptocurrencies will be examined and classified (UNODC, 2014: 10).

##### **4.1. Money Laundering**

Money laundering denotes the process by which criminals disguise the original ownership and control of the proceeds of criminal conduct by making such proceeds appear to have derived from a legitimate source (Sat et.al, 2016: 246).

Cryptocurrencies whose main features are anonymity, fast dealing and decentralization make them suitable to money laundering.

In this section, money laundering transactions made through internet browsers, especially known as dark web, will be examined. In addition, placement from the basic mechanisms of money laundering and the use of cryptocurrencies will reveal how money can be realized in online gaming and micro laundering.

##### **4.2. Cybercrime**

In this section, cybercrime will be defined and classified. Cybercrimes which emerged in the last period and demanded the crypto currencies for ransom also will be featured. These crimes known as cyrptoware (ransomware using encryption) is a significant threat to EU and other countries, targeting not only citizens but increasingly public and private sector organizations alike (Europol, 2017: 28).

##### **4.3. Terrorism Financing**

Although financing terrorism with cryptocurrencies is not considered a significant risk, it is seen as a potential and emerging risk. Security experts are expressing concerns that terrorists are quickly becoming more technologically masters. As this trend continues, cryptocurrencies will become an increasingly suitable instruments for financing terrorists activities. Terrorist groups, prefer to use VCs for purchasing illegal firearms or explosives in addition to travel documents or other items in the dark web to facilitate their operations (Carlise, 2017: 12).

#### **4.4. Fraud**

Cryptocurrencies carry a number of fraud risks. First is the risk of cryptocurrency users committing fraud. In cryptocurrency networks, buyers are not protected against failure to deliver goods or against buying fake or defective goods. The anonymous / counterfeit identity of cryptocurrencies allows fraudsters to operate under false identities and to mislead themselves in online markets for fraud.

Although some of the cryptocurrency stock exchanges operating as Ponzi schemes are in good condition, it has been seen that both Bitcoin and many smaller and later emerging cryptocurrencies and vendors that supply them have shutting down the sites and they disappeared (FATFA, 2015: 32).

### **5. Tax Administration Problems about Usage of Cryptocurrencies and Solution Proposals**

#### **5.1. Anonymity and Monitoring Problem and Its Effects**

In this section, the difficulty of monitoring tax administrations crypto currencies due to their ability of performing anonymity and cross-border transactions will be explained. In addition, this difficulty which creates high risk for tax evasion will be examined.

#### **5.2. Solution Proposals for Regulating Taxation of Cryptocurrencies**

In this section, regulations made in various countries for the taxation of crypto currencies will be featured (Hileman&Rauchs, 2017:21). Chainalysis, which cooperates with the government on the monitoring of crypto-currency movements in the USA, will be explained as the first example. In addition, the regulations and cooperation proposals of international organizations regarding taxation will be given again in this section.

### **6. Conclusion**

Cryptocurrencies offer many potential benefits, including higher speed and efficiency, particularly at the point of making payments and transfers across borders and ultimately encouraging inclusion in the financial system. The “Blockchain” mechanism behind some virtual currencies, and the distributed ledger technology -which is a decentralized mechanism that introduces innovations for monitoring transactions on a large network- it contains, offer potential benefits beyond the realities of virtual currencies. However, crypto currencies presents significant risks as a potential instrument for money laundering, terrorist financing, tax evasion, and fraud.

It is very difficult to control and regulate the cryptocurrencies as they are in the responsibility of the different institutions from the national point of view and they operate on the global scale. These regulations also includes the taxation, and it is

observed that the crypto currencies are generally evaluated in the "asset" category and there are countries which are willing to make tax regulations in this framework. However, many virtual currencies are non-transparent and operate outside of the conventional financial system, it makes difficult to follow their activities. Units that want to organize the activities of virtual currencies have begun to arrange these difficulties with various approaches that often try in country by country terms.

Regulations have included; clarifying the applicability of the practicing the existing legislation to virtual currencies, delivering a warning to consumers, license requirements for virtual currencies to operate on the market, the prohibition of transactions of financial institutions with virtual currencies, the complete prohibition of virtual currencies and prosecution of infringement crimes (IMF, 2016: 5).

These regulations are; include initial policy responses to the challenges posed by cryptocurrencies, but they need to be improved. In particular, it is expected that national authorities will design regulations in accordance with the risks, without suppressing the innovations contained in the cryptocurrencies. In this context, more cooperation on an international level is needed to facilitate the process of developing and refining policies at the national level. International organizations play an important role in identifying and discussing the risks posed by cryptocurrencies and possible regulatory responses. International organizations are expected to continue this role. International standards can be established as experience gained in regulations is gained. These standards can establish frameworks for cooperation and coordination across the country in areas such as information sharing and the investigation and prosecution of cross-border crimes. However, best practices provide guidance on the most appropriate regulatory responses in different areas and they can be assessed to promote harmonization in the jurisdictions.

**Key Words:** Cryptocurrencies, Taxation, Money Laundering, Tax Evasion

**JEL Codes:** E42, H20, H26, G18

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# Municipal Public Services and Tax Compliance: Evidence from Survey Analysis

Recep Yücedoğru<sup>1</sup>

Burcu İnam<sup>2</sup>

## 1. Introduction

Taxes are paid preliminary for provision of public goods (Uler 2011). Although this bold argument has been the major claim of economic deterrence models that explain tax compliance it is yet replaced with fiscal psychology models which counts more 'human' factor in the equation (Andreoni et al. 1998). Nevertheless, there is still evidence that proves public view of taxes as price of public services (Feld and Tyran 2002).

This paper aims to investigate influence of satisfaction from municipal public services on tax compliance decisions of taxpayers. In particular, we focused firstly on Turkish taxpayers' (in Zonguldak region) perceptions of eight different kinds of services namely: town planning and urban development, public transport, social services, environmental services, security and disaster planning, commercial services, infrastructure and cultural services, and how they assessed the quality of municipal services. Secondly we assessed the influence of those perceptions of municipal services on tax compliance decisions of taxpayers.

The research looks into the influence of the perception of municipal services on tax compliance of taxpayers while controlling for perception quality of municipal services. The survey was conducted with 1064 participants in within eight different municipal districts. Later the structural model was constructed to test for the above-mentioned effects. Considering the literature is not extensive on the effect of municipal services, there is a clear gap in the literature that our research intends to contribute upon.

## 2. Literature Review and Structural Model

The reasons of voluntarily taxpaying behaviour has aroused great curiosity and caught attention of many scholars over the last decades. It has proved a captivating debate because of the complicated nature of taxpayers' behaviour which brings the relationship between the citizen and the state into focus and confronts citizens with a decision of whether to comply or not. Many factors of voluntarily tax compliance behaviour have been identified in the literature so far; such as: expected utility from tax evasion (Allingham and Sandmo 1972), compliance costs (Hasseldine 2001), fear of

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getting caught and facing tax penalties (McKerchar and Evans 2009), auditing (Erard and Feinstein 1994), equity and fairness of the tax system ((Spicer and Becker 1980), and tax ethics (Alm and Torgler 2011). Despite the significant impact of above mentioned factors, ignoring the provisional side of the taxation would be remiss and lead to possible misunderstandings regarding the nature of the behaviour. Although the recent literature mainly focuses on the psychological side of the tax compliance behavior, it has a practical side such as financing public goods. Hence, there is a literature that has emerged in recent decades which explains taxpayers with marketing term “customer” (Olson 2002). In particular, they suggest tax compliance can be achieved as another organization’s consumer satisfaction approach, therefore better public services and policy would lead better tax compliance (Fountain 2001; Hom 2002; Tuck 2013). Despite the theory is very straightforward, there is little evidence to support the argument of literature. Consequently, there is a clear gap that this research intends to contribute upon.

A structural model that has created for demonstrating relationship between municipal services and tax compliance has presented below.

**Figure 1: Structural Model of Municipal Services on Tax Compliance**





### 3. Methodology

The data was gathered from 1064 participants with a printed survey instrument by using face-to-face surveying. The data in 2016 from 4 different cities that were over one million populated. The data was collected with the convenience sampling method from the active taxpayers of property tax. A quota was applied for population percentages of eight different districts of Zonguldak to reach a representative sample. Survey instrument was formed with pre-tested scales to measure the variables in the structural model and the variables were measured with 7-Likert scale.

Firstly a factorial solution were applied to search for unidimensionality of the measures and the mentioned hypothesis were tested with partially least square analysis of the created structural equation model (PLS-SEM). The analysis was conducted on the model with PLS-SEM by using SmartPLS software packages.

### 4. Preliminary Findings of the Study

The research has tested for all municipal services and found all of the has significant effect on tax compliance of taxpayers. Interestingly the results showed all significant effects on tax compliance and majority of them could be counted as strong influences. Although these are still preliminary regression results and SEM-PLS analysis which shows relative effects is missing, it has proven that the research has highlighted significance of municipal services in taxpayer behavior.

According to the preliminary results, eight service types influences tax compliance in following percentages: town planning and urban development %37,4, public transport %23, social services %42, environmental services %35,7, security and disaster planning %42,7, commercial services %32,4, infrastructure %36,3 and cultural services %22,4, and how they assessed the quality of municipal services %29,2. Although the results still need further evaluation and comparison is problematic in this stage, we can assume that crucial services such as social services and security and disaster planning is strongly influential on tax compliance and they are followed by town planning and urban development.

**Key words:** Municipal services, Tax compliance, Turkey

**JEL Code:** H24, H22, H20, K34

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# The Relationship between Socioeconomic Development and Corruption by Panel Data Analysis

Funda Buz<sup>1</sup>

Melike Rana Dayıoğlu<sup>2</sup>

## 1. Introduction

Corruption is a fact that threatens legal order, disrupts social justice, and prevents the economy from regularly developing. Corruption comes with the emergence of many social, administrative, economic and political reasons and has become a global problem that every country is facing today.

Corruption prevents the state from fulfilling regulatory duty which is one of the main tasks of the state. Corruption is not only about influencing countries' economic development and reconstruction, but also can lead to a decrease in education, health and welfare services by changing the combination of public expenditures (Delavallade, 2006: 222). Therefore, reducing corruption contributes to economic development in addition to social and cultural development.

The corruption levels of countries differ according to their economic and social structure. In this context, since the corruption perception index is thought to be closely related to the level of development of the countries; in this study, the relationship between corruption perception index and different development indexes of countries has been tried to be measured.

## 2. Definition and Types of Corruption

Corruption is defined as "abuse of public power for private interests" by the World Bank (The World Bank, 1997: 8). Professor Klitgaard explains corruption mathematically as "corruption = monopoly + discretion – accountability" (Klitgaard, 1998:4). Essentially corruption need to be perceived as collective damage or abuse of authority for self-interest (Saygılıoğlu, 2010: 24).

Corruption is divided into two types: corruption that is linked directly to criminal sanction and corruption that is indirectly linked to criminal sanction or non-criminal corruption (TEPAV, 2006: 25-31). Furthermore, causes of corruption are classified as economic, social, political and administrative reasons.

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### **3. The Relationship between Corruption and Social and Economic Development**

The actualization of corruption activities in a country varies according to many factors that arise depending on the economic, social, political and cultural structure of the country. Corruption is measured by corruption indexes. The most commonly used corruption index is Corruption Perception Index which is defined by Transparency International.

The points of countries' corruption rates in the world are effected by economic conditions as well as social and cultural features. When comparing the levels of corruption, it is necessary to take into account the cultural and moral characteristics of the countries (Fisman & Miguel, 2011: 90). As every country has different rule-fitting culture and legal regulations, this should be taken into account when making the evaluation (Fisman & Miguel, 2011: 90). For this reason, when the corruption index is examined, it would be beneficial to examine the social and economic development levels of the countries.

When considered in terms of human development and economic development indexes, top ranked countries with the best score in the corruption index rankings are also the countries that are at the top in terms of socioeconomic development. Since the human development index which is especially based on education level, quality of life, average life expectancy and per capita national income, shows the sociocultural structure of the countries and the level of development in this sense; it is evaluated together with economic development as the most important factors directly affecting the corruption index. As a matter of fact, when these indexes are examined carefully, it can be observed that they are changed in direct proportion to the corruption index.

### **4. Analysis**

After the literature review, the method to be used in the study is chosen as panel data analysis. The relationship between corruption and development indexes are examined by three groups such as low, medium and high income countries according to the classification made by the World Bank, and data from 120 countries are analyzed by panel data analysis method covering 2007-2016 period.

#### **4.1. Variables and Data Set**

In the study, six variables were used one dependent and five independent, all given as percentage ratios. Six variables are used in the study, one dependent and five independent and all data are taken as percentage ratios. Economic development, governance, level of education, political stability and social capital index are included as variables that are thought to represent the socioeconomic development of countries. The data used are obtained from Transparency International, Legatum Institute and World Bank data.

The model to be applied in the analysis is determined as follows:

$$yol_{it} = \beta_0 + \beta_1 egit + \beta_2 yon_{it} + \beta_3 egit_{it} + \beta_4 pol_{it} + \beta_5 ss_{it} + u_{it}$$

#### 4.2. Obtaining and Evaluating Analysis Results

As a result of the analysis, the explanatory power of the model is found 55% for low income countries, 71% for middle income countries and 91% for high income countries.

When the impact of economic development index on corruption is examined, it seems that the relationship is only reversed in low-income countries. The increase in the level of economic development in middle and high-income countries increases the score of the corruption perception index and results in lower levels of corruption.

When we look at the relationship between governance and corruption, it is seen that the increase in governance across all country groups positively affects the corruption perception index.

The level of education and political stability are the variables that have the least impact on corruption in terms of the models applied in the study.

Finally, when we look at the relationship between social capital and corruption, only the middle-income countries have an adverse relationship. This suggests that the results for low and high income countries are consistent with the thought in the literature which prescribes that the increase in social capital reduces corruption activities.

### 5. Conclusion

Corruption can arise due to many reasons such as economic, social, political and administrative. In the studies on corruption, it is thought that the socioeconomic structure is the basis of the variables tried to be related to corruption. For this reason, it is the basis of the work to be based on the idea that the factors that make up socioeconomic structure should be examined as the main factors affecting corruption.

In this study, the relationship between corruption activities and socioeconomic structure was tried to be measured. In this context, corruption perception index is used as dependent variable; economic development, governance, education level, political stability and social capital which constitute socioeconomic structure are used as independent variables. 120 countries' data are analyzed by panel data analysis method for three groups of countries-low, middle and high income countries that are based on World Bank classification. As a result of analysis, it is found that the change in the perception of corruption index is highly correlated with the socioeconomic factors that determine social structure.

**Key Words:** Corruption, economic development, governance, education level, political stability, social capital

**JEL Codes:** D73, C23

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# **The Effects of Inheritance and Transfer Tax on the Income Distribution**

**Zinnur Tunç<sup>1</sup>**

## **1. Introduction**

Considering the change in the Gini coefficient during the last three years in our country, gradually deteriorating income distribution brings along various issues to be studied on. Levying taxes according to financial resources and recognizing the balanced distribution of tax burden as a social purpose within the scope of fiscal policy arises from article 73 of our Constitutional Law. Taxation of wealth, which is one of the elements of financial power, and the importance of this taxation in terms of income distribution constitute the basis of this study.

In this context, the study will explain the concept of wealth and effects of this concept on income distribution; the role of inheritance and transfer tax, which is one of the wealth taxes, on ensuring effective income distribution as one of the social purposes of the fiscal policy will be mentioned, and suggestions for its improvement will be made.

## **2. Relation between Wealth Taxes and Income Distribution**

Wealth covers all the economic values of the real estates in stock and personal properties in assets, which are owned in a certain period of time, that can be expressed with a monetary value (Bilici, 2011:181). And the wealth tax is a direct tax calculated over any kind of properties, real estates and receivables falling within the scope of wealth (Turhan, 1998:170). While the financial purposes of the taxes were in the foreground in the past, their social purposes are now in the foreground with the increase state's role. In this context, various regulations were needed for a fair and balanced income distribution (Aksoy, 2011:349).

According to article 73 of the Constitutional Law: "Everyone is under obligation to pay taxes according to his financial resources, in order to meet public expenditure. An equitable and balanced distribution of the tax burden is the social objective of fiscal policy." In this context, acting upon the fact that financial resources have three indicators which are namely income, wealth and expenditures, we can characterize the fair and balanced taxation of wealth as a necessity of social state understanding (Sonsuzoğlu, 2009:19).

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Considering in terms of income distribution, it is not possible that every individual living in a country to have equal share from the national income, but this leads to social problems among the people (Pinar, 2017:27). When the TurkStat data in this context is analyzed for Turkey, the last Gini coefficient announced was calculated as 0,404 with a 0,007 points increase compared to the previous year. This indicates that inequalities in income distribution are increasing.

**Table 1: Gini Coefficient in Turkey**

<b>Gini Coefficient and P80/P20 rate, 2007-2016</b>										
	<b>Years</b>									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Gini Coefficient</b>	0,406	0,405	0,415	0,402	0,404	0,402	0,400	0,391	0,397	0,404
<b>P80/P20 rate</b>	8,1	8,1	8,5	7,9	8,0	8,0	7,7	7,4	7,6	7,7

Source: TÜİK (TurkStat) <http://www.tuik.gov.tr/UstMenu.do?metod=temelist> (01.02.2018)

There are a number of factors affecting the income distribution and causing the above conclusions to emerge concretely, but when considered regarding the taxes related to our topic, wealth taxes would cause the incipient wealth to be directed to high income group at the countries where income distribution is not fair. Moreover, despite the high incomes of entrepreneurs holding the capital in addition to the inputs in developed and developing economies, the incomes of employees or small-scale self-employed individuals remain lower. High marginal consumption trends of the low-income group limit their savings and also create a reducing effect on their accumulation of wealth. Therefore, the distribution of wealth within the scope of income deteriorates the advantage of high-income groups. Thus, unless effective measures are taken, this cycle would create income distribution inequities such as an increase in wealth and capital savings of high-income group in market economy. When it comes to developing countries such as turkey, in addition to the cycle mentioned above, "dispossession" process accelerates based on the fact that wealth of low-income earners tends to deteriorate easily in parallel to the population growth rate as well as the fact that the lands falling into marginal scale are possessed by high-income groups. In summary, new wealth formations also pass on to those who have wealth. This also accelerates the cycle mentioned above. Even if a change is created in the income levels of low-income groups through primary or secondary income distribution, this is why the current imbalance will continue as long as they are used as consumption expenditures. Acting upon this, the consumption based melting of the increase in income through wealth would prevent the formation of potential wealth, and would be reflected as a factor income to high-income groups. In all this context, it is necessary for the state to interfere this distribution process with the taxes (Ministry of development, 2001:69).

Taking into account the budget realizations of the past year, inheritance and transfer tax has the lowest share among the tax revenues levied on total wealth. We should



not accept that the effect of this most debated tax, which was even considered to be abolished in the past, on the income distribution is limited as its share remains at only 4%. Although this situation brings ineffectiveness debates, its low share does not change the fact that it contains purposes to balance income distribution.

### 3. The Effects of Inheritance and Transfer Tax on Income Distribution

Inheritance and transfer tax is a subjective, general and direct wealth tax which covers all kinds of properties and real estates for the transfers due to death, while covers unrequited transfers among the living persons, and is actually consisted of two taxes (Oktar, 2016:305). Despite the existence of tax exemptions within the scope of exemption and exception in the Inheritance and Transfer Tax Law no. 7338, in order to positively affect the income distribution, these taxes must have a particularly low exception and exemption scope and the tax rate must be high (Ulusoy, 2007:324).

Considering the tax payment compliance increasing due to the taxpayers' will to possess a property as soon as possible and the swift increase in their income (Güneş, 2017:154), the obstacles to expanding the existing tariffs are decreasing. When we consider the country applications, it's seen that the inheritance and transfer tax is calculated over the inheritance or over the shares. Although the share-based calculation applied in our country has the potential to produce more fair results in income distribution compared to inheritance tax, the balancing mechanism remains insufficient due to the low shares (Çiçek & Çiçek, 2008:150). A gradual tax is observed when the inheritance and transfer tax system of Belgium (Ernst & Young, 2016:14), having the largest share according to OECD data<sup>1</sup>, is examined. If a suggestion should be made within the scope of the criticisms on the ineffectiveness of inheritance and transfer tax based on low revenue; then the criticisms in this context could be prevented by bringing a tariff structure similar to the one applied in Belgium, provided that compliance with the Turkish tax system is ensured.

### 4. Conclusion

Although the inheritance and transfer tax, which is among the taxes levied on wealth in our country, has a low effect on income distribution due to its share, it is necessary to investigate and reveal its regulatory aspects and to eliminate its deficiencies, if available.

Inheritance and transfer tax is an integral part of the social state understanding for limiting the assets that the heirs receive due to death without paying any consideration, and, in this context, ensuring justice in the accumulation of wealth. Therefore, there is an increasing need for new regulations to increase the share of inheritance and transfer tax among the total tax revenues during these years where the Gini coefficient in our country worsens. While there is a practice taking the lines of

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<sup>1</sup> For cross-country comparison: OECD, <https://stats.oecd.org/Index.aspx?DataSetCode=REV> (04.03.2018)

descent into account in our country, it is possible to make various arrangements for increasing the share of inheritance and transfer tax among the wealth taxes. When the tax system of Belgium, which has the highest share, is examined by benefiting from the OECD data in this context, an expanded tariff with a higher rate is available in addition to the share-based system that is also available in Turkey. It will be possible to obtain the desired level in the context of revenue increase thanks to the tariff structure where differentiation according to kinship level is more evident, and to have more effective results on fair income distribution.

**Key Words:** Inheritance and Transfer Tax, Income Distribution, Gini Coefficient

**JEL Codes:** H20, K34

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## Evaluation of Education Expenditures in Turkey and EU Countries: Cluster Analysis

Uğur Uyğun<sup>1</sup>      Fatih Yardımcıoğlu<sup>2</sup>

### 1. Introduction

Aim of the study is to evaluate Turkey along with 28 different European Union countries' education expenditures by quantity and proportional variables and to reach a conclusion about where Turkey is standing amongst European Union countries.

This study evaluates the education extent of social expenditures which realize in the scope of social government in Turkey and European Union countries. Study has importance in regard to show Turkey's similarities with European Union countries in the context of education expenditures.

Study uses hierarchical cluster analysis to categorise Turkey and European Union countries' education data via inputting SPSS program. Data variables were evaluated using ward method which becomes a reliable implementation by decreasing variance difference to minimum value. Then denrogram analysis has been applied to variables and finally to measure the distance for similarity, squared euclidean distance method used, which is the most preferred method.

Study involves 28 European Union countries and Turkey. Share of education expenditures in public institutes, share of higher education expenditures in gross domestic product and share of total education expenditures in gross domestic product have been analyzed.

### 2. Literature Review

Ayrangöl and Tekdere (2014) emphasize the speciality of education as being semi-public good and they indicate that it spreads positive externality which is good for individuals and whole society. Role of government in education happen to be by legal adjustments or increase in education expenditures, they stated. Lastly, education expenditures in Turkey and other OECD countries' had been evaluated and education expenditure per student analyzed by years, according to the results various suggestions had been made.

Arabacı (2011) remarks that education is one of human capital and it has influence over individuals as well as society. The comparison between OECD countries and

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Turkey show that education expenditures in Turkey are more private based. Also according to the study: schooling rate, education expenditure per student, amount of population utilize from education service, amount of personal who work in education sector and fund for education are lower in Turkey than OECD average values.

### 3. Comparison of Education Expenditures with Cluster Analysis

Education expenditures in European Union countries and Turkey were compared with cluster analysis in different variables such as: share of education expenditures in public institutes, share of higher education expenditures in gross domestic product and share of total education expenditures.

#### 3.1. Cluster Analysis

As being one of multivariate statistical analysis, Cluster Analysis is made to categorize into sub clusters the variables which have similar attributes. Evaluating distinctive attributes of data, Cluster Analysis categorizes variables into similar groups. In other words, Cluster Analysis is made to categorize ungrouped data into clusters which are similar to each other (Kavılı, 2016:5).

#### 3.2. Share of Education Expenditures in Public Institutes

Share of education expenditures in public institutes in European Union countries and Turkey were analyzed for 1998-2013 term, via cluster analysis. Data for relevant variable missing for Croatia, Estonia, Germany, Greece, Lithuania and Luxembourg. Countries which have missing value were included into analysis with their average values.

Share of education expenditures in public institutes in European Union countries and Turkey were given in Table 1. Considering the average value for share of education expenditures in public institutes, highest value is Belgium which has %96.7 ratio; lowest value is Turkey which has %85.4 ratio.

**Table 1. Share of Education Expenditures in Public Institutes**

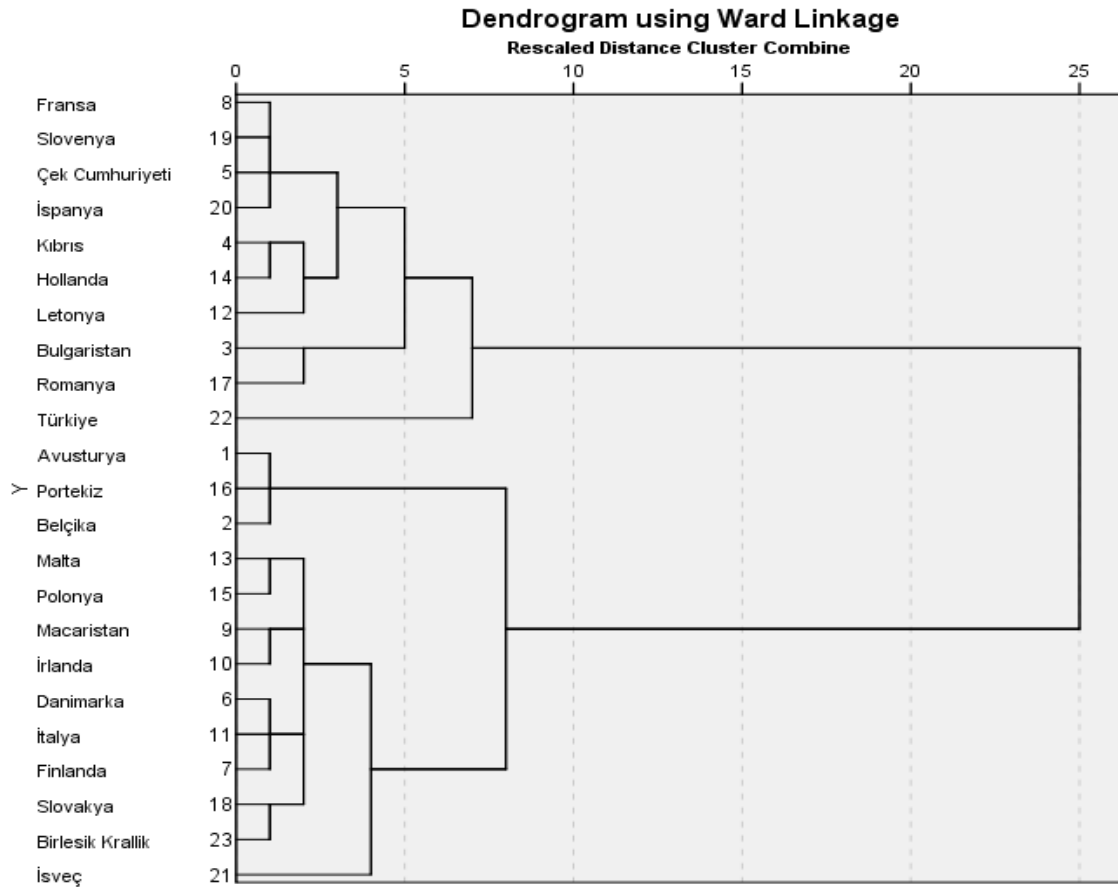
	1998	2004	2008	2010	2011	2012	2013
<b>Turkey</b>	85,45	78,91	85,45	85,45	89,04	85,45	85,45
<b>Belgium</b>	96,77	97,08	95,89	96,22	96,38	96,77	96,77
<b>Bulgaria</b>	92,43	92,43	86,03	94,93	95,23	94,14	92,43
<b>Cyprus</b>	88,41	89,41	85,07	89,04	89,72	88,41	88,41
<b>Czech Republic</b>	90,96	90,43	89,96	89,92	87,40	90,74	90,12
<b>Denmark</b>	94,19	93,85	94,73	92,93	96,33	93,82	93,81
<b>Finland</b>	92,86	91,00	92,93	93,92	92,84	93,99	94,22
<b>France</b>	90,78	89,56	90,51	90,59	91,01	91,48	90,59

<b>Hungary</b>	91,79	93,58	94,22	89,63	90,91	91,75	91,75
<b>Ireland</b>	93,14	93,24	90,84	91,29	93,31	94,95	91,43
<b>Italy</b>	93,54	92,10	94,09	95,18	95,26	93,42	93,42
<b>Latvia</b>	89,15	91,62	84,18	87,32	87,71	89,15	87,39
<b>Malta</b>	88,70	94,42	91,99	89,92	92,43	87,22	91,79
<b>Netherlands</b>	93,41	87,33	86,43	88,12	88,19	87,74	87,82
<b>Poland</b>	90,68	93,43	92,17	90,69	91,11	92,25	92,21
<b>Portugal</b>	92,31	96,79	96,47	96,21	97,24	95,38	95,38
<b>Romania</b>	93,94	94,06	90,29	89,24	91,24	92,11	90,29
<b>Slovakia</b>	93,59	94,59	95,28	87,82	90,01	92,38	92,82
<b>Slovenia</b>	90,55	90,49	88,87	91,34	91,42	91,46	90,55
<b>Spain</b>	89,93	90,17	87,47	89,23	89,23	92,16	94,15
<b>Sweden</b>	85,45	94,66	94,08	94,38	94,22	94,35	94,93
<b>Austria</b>	92,47	95,24	96,23	95,08	95,93	96,04	95,45
<b>United Kingdom</b>	95,09	92,07	91,73	88,59	93,85	92,98	97,32

Source: World Development Indicators 2017

\*Countries that have missing value in relevant years, had been added to average value of countries.

**Graphic 1. Share of Education Expenditures in Public Institutes' Dendrogram Analysis**



Share of Education Expenditures in Public Institutes' Dendrogram Analysis in European Union countries and Turkey for 1998-2013 term were shown in Graphic 1. According to the dendrogram analysis there exists 11 different clusters which are:

Cluster 1: Austria, Belgium, Portugal

Cluster 2: Bulgaria

Cluster 3: Cyprus, Netherlands

Cluster 4: Czech Republic, France, Slovenia, Spain

Cluster 5: Denmark, Finland, Italy

Cluster 6: Hungary, Ireland, Malta, Poland

Cluster 7: Latvia

Cluster 8: Romania

Cluster 9: Slovakia, United Kingdom

Cluster 10: Sweden

Cluster 11: Turkey

**Table 2. Formation of Range Matris and Cluster in Accordance with Share of Higher Education Expenditures in Gross Domestic Product Analysis**

Country	Squared Euclidean Distance	Cluster
Turkey	0	11
Netherlands	257,592	3
Cyprus	294,2704	3
Spain	490,4666	4
Czech Republic	514,8201	4
France	518,2742	4
Slovenia	531,5415	4
Latvia	637,806	7
Romania	702,9407	8
Ireland	753,7231	6
Hungary	818,44	6
Malta	820,4672	6
Poland	866,8565	6
Sweden	940,0888	10
Finland	989,0514	5
Bulgaria	1081,418	2
United Kingdom	1086,542	9
Italy	1119,902	5
Denmark	1234,534	5
Slovakia	1288,224	9
Portugal	1697,383	1
Austria	1707,386	1
Belgium	2161,216	1

Evaluating the cluster's squared euclidean distance and share of education expenditures in public institutions' there exists a cluster (number 11) which includes only Turkey for 1998-2013 term in European Union countries and Turkey. First closest member to Turkey is Netherlands and second closest member to Turkey is Cyprus with a value of 294,2704. Also the most distant member to Turkey is Belgium.

#### 4. Conclusion

Study compares 28 European Union countries and Turkey's education expenditures via hierarchical cluster analysis. In this context, European Union countries and Turkey's expenditures that have similar education characteristics were categorized into clusters.

Obtained results from comparing European Union and Turkey's education expenditures were given below. According to the share of education expenditures in Public Institutes, Turkey forms a group by itself. Cluster analysis results show that Netherlands is the closest country to Turkey in regard to variable and the second one is Cyprus while the most distant country is Belgium. Share of high school education expenditures in gross domestic product shows that Finland and Turkey form a group. According to the cluster analysis for the relevant variable, closest country to Turkey is Finland which is followed by Denmark while the most distant country is Latvia. Share of total education expenditures in gross domestic product shows that Croatia, Czech Republic, Italy, Slovakia and Turkey are in the same group. Cluster analysis results show that closest country to Turkey is Croatia, which is followed by Italy while the most distant country is Cyprus.

**Key Words:** Education Expenditures, Cluster Analysis, European Union

**Jel Code:** H52, I21

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# The Role of Government and Non-Governmental Organizations in the Struggle of Poverty

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## 1. Introduction

Poverty is, in fact, as old as human history, even though it is tried to be prevented by serious measures and policies in today's world. There are individuals in every period of history and in every society that are in the lower quarters of the income distribution and unable to meet their basic needs with their own skills or profits. The concept of poverty was known the problem of undeveloped or developing countries. But poverty is a concept that is felt and struggled by developed countries. Poverty emerges in different dimensions for developing and undeveloping countries. In order to make income distribution more equitable in all the countries of the world, governments are carrying out various studies which are subject to tax or transfer payments. Also non-governmental organizations emphasize struggle with poverty. This study will focus on government and non-governmental organizations efforts to combat poverty.

## 2. Struggle with Poverty

The first definition of the term poverty was made by Seebohm Rowntree in 1901. According to this definition, Poverty, it is not enough to meet the minimum physical costs, total income, food, clothing, necessary for the continuation of biological existence. This definition focuses only on the material aspect of poverty and on clothing and food, which is a narrower area. The ever-changing and evolving circumstances of that day caused the dimensions of poverty and the domain of influence to change and the perception of the concept of poverty to change. We can define poverty in two ways, narrow and broad sense. In a narrow sense, poverty means hunger and no place to stay. poverty in a broad sense means staying behind society in general.

The main international organization for fighting poverty is the World Bank. In the 1960s, the World Bank stressed the need to accelerate the industrialization of developing countries as the best way to reduce poverty and to invest. However, since 1980, developing countries have faced increasing debt burdens and declining foreign exchange revenues and macroeconomic problems resulting from this interests to poverty and more macroeconomic problems (Aydın ve Türgay, 2011:253).

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### **2.1. The Role of the State in the Struggle with Poverty**

Turkey has been operating in the field of social protection in many institutions. These institutions are either directly involved in the area of social assistance and services or contribute to poverty reduction efforts by making monetary transfers in addition to social security areas. It is possible to list some institutions operating in the field of fight against poverty in the following way (Kaya, 2009: 66);

- Prime Ministry Social Services and Child Protection Agency General Directorate
- Prime Ministry Administration of Disability Administration
- Prime Ministry General Directorate of Foundations
- Local Governments
- The Ministry of Labor and Social Security
- Ministry of Health
- Prime Ministry General Directorate of Social Assistance and Solidarity

### **2.2. The Role of Civil Society Organizations in Poverty Alleviation**

In order for poverty and combat to be successful, it is necessary to adopt it as a priority target and to define concrete programs. At this point, public authorities convincing efforts will only succeed if they are supported locally by non-governmental organizations. Non-governmental organizations that have the ability to penetrate individuals from almost every segment of society carry a complementary mission to fulfill this function.

## **3. Poverty in Turkey**

In today's world, poverty is being assessed far beyond the material dimension. The perception of poverty that is socially felt and perceived by every individual in society and the evaluation of the poor by the rest of the society should be examined in today's society. Today, the language we use when talking about poverty and the style we are wearing reveals the look of the relevant part of the society. This language and style, which is a manifestation of our attitude towards poverty, is fed by elements of blame and pity, especially fear. It is possible to explain the causes of these perceptions as follows. The poor are accused of "spreading crime and violence" to all modern societies from day one onwards. Also, words commonly used today in Turkey "social explosion" have become important actors in the horror genre. In addition, the poor bring about various infectious diseases worries when they are not poor. They may have a pure physiological quality, or they may be a concern for the spread of moral diseases such as laziness, drug habit or theft in the society. Reactions from such anxiety can manifest themselves in the tendency to isolate and control the poor (Öztürk ve Çetin, 2012;2663).

#### 4. Conclusion

It is known that governments often use money and fiscal policy tools in their hands to combat poverty or to ensure justice in income distribution. However, the ownership of goods and services, which are already unevenly distributed in many countries, can cause of poverty to be further deepened. Especially in countries governed by non-democratic regimes, property belonging to a certain group or zhou is , and legal or administrative regulations increase the prosperity of the person or groups concerned, leading to the continuation and deepening of the poverty of the rest of society.

The World Bank and its partner, the International Monetary Fund (IMF), who continuously work on the subject and provide support by producing projects, can not make any significant progress in order to overcome the problem.

As of February 2018, it is stated that the limit of hunger is 1637 Turkish Lira and the limit of poverty is 5331 Turkish Lira. Turkey fight against poverty with many government agencies and civil society organizations. Stable economic growth, especially in recent years, has contributed to the growth of personal national income and to the expansion of education, health, transportation and infrastructure service networks, in the context of humanitarian values. It should not be forgotten that there are many studies that need to be done in conjunction with positive developments in order to solve a problem in the context of humanitarian poverty, etc.

**Key Words:** Poverty, Welfare Economics, Struggle with Poverty

**JEL Codes:** H00, H30, I30

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